

## AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type: <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name: <u>City of Taylor, Michigan</u>	County Wayne
Audit Date June 30, 2004	Opinion Date December 7, 2004	Date Accountant Report Submitted To State: December 29, 2004	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:


1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below:

- |   |   |
|---|---|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).  |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).  |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91] or P.A. 55 of 1982, as amended [MCL 38.1132])   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).  |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Reports on individual federal assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Certified Public Accountant (Firm Name): <b>Plante &amp; Moran, PLLC</b>			
Street Address 27400 Northwestern Highway	City Southfield	State MI	ZIP 48034
Accountant Signature 			

# **City of Taylor, Michigan**

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## **Financial Report with Supplemental Information June 30, 2004**

# City of Taylor, Michigan

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## Independent Auditor's Report

To the City Council  
City of Taylor, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Taylor, Michigan as of and for the year ended June 30, 2004, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Taylor, Michigan's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Taylor Housing Commission (a discretely presented component unit), which reflect total assets of \$40,716,150 at March 31, 2004 and a net decrease in net assets of \$423,001 for the year then ended. Those financial statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Housing Commission, is based solely on the report of the other auditors. The other auditors' report, dated August 27, 2004 (which includes the information for the Taylor Community Development Corporation, which was audited as of October 18, 2004), expressed an unqualified opinion on the financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Taylor, Michigan as of June 30, 2004 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

To the City Council  
City of Taylor, Michigan

The management's discussion and analysis, budgetary comparison schedule - General Fund, and the pension systems schedule of funding progress, as identified in the table of contents, are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Taylor, Michigan's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 7, 2004 on our consideration of the City of Taylor, Michigan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide opinions on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

*Plante & Moran, PLLC*

December 7, 2004

# City of Taylor, Michigan

## Management's Discussion and Analysis

Our discussion and analysis of the City of Taylor, Michigan's financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2004. Please read it in conjunction with the City's financial statements.

### Financial Highlights

As discussed in further detail in this discussion and analysis, the following represent the most significant financial highlights for the year ended June 30, 2004:

- State-shared revenue, our second largest revenue source, was reduced by approximately \$925,000 this year; once again, this was substantially as a result of mid-year budget cuts by the State of Michigan. The City was able to withstand the effect of the cuts while continuing a hiring freeze and asking departments to streamline operations for the long-term effect of the cuts.
- Revenues from the 23<sup>rd</sup> District Court increased \$722,000 over the prior year amount, to a new annual total of over \$4 million.
- Total net assets related to the City's governmental activities at the end of the year were approximately \$143 million, a slight increase over the prior year's \$142 million.
- The City began construction on the new fire station and new courthouse, financed by Taylor Building Authority bonds issued at favorable long-term interest rates. Construction will continue in the 2004/2005 fiscal year.

### Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City of Taylor, Michigan's basic financial statements. The City's basic financial statements are comprised of three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. This report also contains other supplemental information in addition to the basic financial statements.

**Government-wide Financial Statements** - The statement of net assets (deficit) and the statement of activities are both new and provide information about the activities of the City on a government-wide basis. They are designed to present a longer-term view of the City's finances. This longer-term view uses the accrual basis of accounting, similar to a private-sector business, so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing government services.

# City of Taylor, Michigan

## Management's Discussion and Analysis (Continued)

**Fund Financial Statements** - The Fund financial statements are presented after the government-wide statements, and are also in a different format than in previous years; they present a short-term view, and tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the City's operations in more detail than the government-wide financial statements by providing information about the City's most significant funds. The fiduciary fund statements provide financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside of the government.

**Notes to the Financial Statements** - The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

**Other Information** - In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City's General Fund budget and the City's progress in funding its obligation to provide pension benefits to its employees. Other supplemental information is also presented in the form of combining statements for nonmajor governmental funds, fiduciary funds, and the Taylor Housing Commission component unit.

### The City of Taylor as a Whole

The following table shows, in a condensed format, the net assets as of June 30, 2004 and 2003:

	Governmental Activities		Business-type Activities		Total	
	2003	2004	2003	2004	2003	2004
<b>Assets</b>						
Current assets	\$ 13,920,297	\$ 17,136,099	\$ 7,251,950	\$ 4,922,852	\$ 21,172,247	\$ 22,058,951
Noncurrent assets	192,256,042	189,928,178	187,942,196	187,143,488	380,198,238	377,071,666
Total assets	206,176,339	207,064,277	195,194,146	192,066,340	401,370,485	399,130,617
<b>Liabilities</b>						
Current liabilities	11,830,393	12,951,568	6,826,386	7,840,578	18,656,779	20,792,146
Long-term liabilities	52,476,087	50,901,502	69,577,007	65,677,005	122,053,094	116,578,507
Total liabilities	64,306,480	63,853,070	76,403,393	73,517,583	140,709,873	137,370,653
<b>Net Assets</b>						
Invested in capital assets - Net of related debt	139,056,945	137,430,810	104,441,641	107,347,547	243,498,586	244,778,357
Restricted	3,604,257	5,614,124	12,507,514	12,332,788	16,111,771	17,946,912
Unrestricted (deficit)	(791,343)	166,273	1,841,598	(1,131,578)	1,050,255	(965,305)
Total net assets	<u>\$ 141,869,859</u>	<u>\$ 143,211,207</u>	<u>\$ 118,790,753</u>	<u>\$ 118,548,757</u>	<u>\$ 260,660,612</u>	<u>\$ 261,759,964</u>



# City of Taylor, Michigan

## Management's Discussion and Analysis (Continued)

The City's combined net assets increased .4 percent from a year ago - increasing from \$260,661,000 to \$261,760,000. As we look at the governmental activities separately from the business-type activities, we can see that the current level of unrestricted net assets for our governmental activities stands at \$166,273, an increase of nearly \$1 million. The increase is primarily a result of the General Fund revenue in excess of budget and expenditures less than budgeted. The business-type activities suffered a decrease in the unrestricted net assets of nearly \$3 million. The decrease is primarily a result of the use of working capital to purchase capital assets.

The following table shows the changes of the net assets during the current year:

	Governmental Activities		Business-type Activities		Total	
	2003	2004	2003	2004	2003	2004
<b>Revenue</b>						
Program revenue:						
Charges for services	\$ 10,146,461	\$ 11,559,969	\$ 17,123,518	\$ 16,982,059	\$ 27,269,979	\$ 28,542,028
Operating grants and contributions	7,340,437	7,758,770	-	-	7,340,437	7,758,770
Capital grants and contributions	4,701,507	4,058,621	1,260,831	1,411,583	5,962,338	5,470,204
General revenue:						
Property taxes	23,191,400	24,841,759	3,742,103	3,927,706	26,933,503	28,769,465
State-shared revenue	9,149,590	8,223,220	-	-	9,149,590	8,223,220
Unrestricted investment earnings	255,141	279,814	271,744	220,074	526,885	499,888
Rental income and fees	310,829	512,121	33,864	42,820	344,693	554,941
Gain on disposal of assets	-	1,561,059	-	(2,097)	-	1,558,962
Miscellaneous revenue	540,929	1,070,883	35,994	25,486	576,923	1,096,369
Total revenue	55,636,294	59,866,216	22,468,054	22,607,631	78,104,348	82,473,847
<b>Program Expenses</b>						
General government	11,175,239	10,808,382	-	-	11,175,239	10,808,382
Public safety	21,664,376	23,728,945	-	-	21,664,376	23,728,945
Public works	12,883,878	15,172,428	-	-	12,883,878	15,172,428
Community and economic development	1,952,619	1,393,208	-	-	1,952,619	1,393,208
Recreation and culture	5,687,380	5,072,953	-	-	5,687,380	5,072,953
Interest on long-term debt	2,103,964	2,348,952	-	-	2,103,964	2,348,952
Water	-	-	5,659,986	5,711,061	5,659,986	5,711,061
Sewer	-	-	8,329,881	8,173,541	8,329,881	8,173,541
Taylor Sportsplex	-	-	2,494,600	2,581,705	2,494,600	2,581,705
Golf courses	-	-	5,293,215	6,079,940	5,293,215	6,079,940
Ecorse Creek	-	-	335,885	303,380	335,885	303,380
Total program expenses	55,467,456	58,524,868	22,113,567	22,849,627	77,581,023	81,374,495
<b>Change in Net Assets</b>	<b>\$ 168,838</b>	<b>\$ 1,341,348</b>	<b>\$ 354,487</b>	<b>\$ (241,996)</b>	<b>\$ 523,325</b>	<b>\$ 1,099,352</b>

# City of Taylor, Michigan

## Management's Discussion and Analysis (Continued)

### Governmental Activities

The City's total governmental revenues were approximately \$59.9 million. The City experienced decreases in state-shared revenue, but experienced increased property taxes, federal grants, court revenue, and land sales. The increase in property tax revenue resulted from continued growth in the City's tax base.

The City's total governmental expenses were approximately \$58.5 million. There continue to be large increases in health care costs and property insurance rates. An employer contribution to the General Employees' Retirement System was necessary for the first time in many years, primarily the result of the prior three years of pension investment declines. The City closely monitored its spending in all other areas, including hiring and capital outlay.

### Business-type Activities

The City's business-type activities consist of the Water, Sewer, Ecorse Creek, Golf Courses, and Taylor Sportsplex Enterprise Funds. We provide water to residents from the Detroit Water System. We provide sewage treatment through a Wayne County-owned and operated sewage treatment plant. The City operates two outstanding golf courses. The Lakes of Taylor Golf Club is a championship caliber golf course designed to challenge golfers at every level. Taylor Meadows Golf Club is a links-style course, challenging yet still player-friendly. Both courses also provide food service and pro-shop operations as well. The Taylor Sportsplex is an indoor multi-function facility that features two ice arenas, a soccer arena, and a combination soccer/convention arena, as well as meeting areas and food service. For all business-type activities in 2004, operating revenues increased \$141,000, and net assets decreased \$242,000. The Sewer Fund accounts for the activity related to the City's participation in the Downriver Sewer System, including the tax levy mandated to pay for the City's share of debt issued by Wayne County to pay for the recent improvements to the system.

### The City of Taylor's Funds

Our analysis of the City's major funds begins on page 12, following the government-wide financial statements. The fund financial statements provide detail information about the most significant funds, not the City of Taylor as a whole. The City creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as bond projects. The City's major funds for 2004 are the General Fund and the 2003 Taylor Building Authority (TBA) Project Fund.

The General Fund pays for most of the City's governmental services. The most significant are police and fire, which incurred expenses of approximately \$15,789,000, and public works, which incurred expenses of \$13,216,000 in 2004.

The 2003 TBA Project Fund was established upon the issuance of TBA bonds in 2003, and accounts for the construction of the new fire station and new court house.

# City of Taylor, Michigan

## Management's Discussion and Analysis (Continued)

### General Fund Budgetary Highlights

Over the course of the year, the City amended the budget to take into account events during the year. The most significant change was to decrease the estimated State revenue-sharing budget by \$690,000. The State of Michigan cut revenue-sharing estimates at least four times during the year in an effort to balance its own budget in a difficult economy. The revenue-sharing budget reductions were offset by increases to other revenue budgets, most notably property taxes, court revenues, and land sales. The property tax budget is typically projected initially based on conservative estimates of the taxable values, which are not yet finalized at the time of budget adoption. Overall, the General Fund's revenue budget was increased during the year by approximately \$1.03 million. Overall actual revenues exceeded the budget by \$242,000, or .4 percent. The largest negative variances were in federal grants (\$209,000) and State grants (\$158,000); positive variances resulted in fines and forfeitures of \$166,000, various charges for services of \$99,000, and other income of \$316,000.

The City's expenditure budget was increased nearly \$1.4 million by amendments during the year, primarily as a result of the carryover of \$543,000 in unexpended items from the previous year. The City's departments overall stayed below budget, resulting in total expenditures of \$1.7 million (3.3 percent) below budget, and that was despite an unexpected transfer of \$310,000 to support the Local Streets Fund. The net result was an increase in the General Fund's fund balance of \$1,953,000 greater than budgeted, despite reductions in the State revenue-sharing during the year.

### Capital Asset and Debt Administration

At the end of 2004, the City, including its component units, had approximately \$399 million invested in a broad range of capital assets, including buildings, roads, water and sewer lines, parks, and machinery and equipment. The City finances much of its capital improvements through the issuance of long-term debt. During the year, the City issued additional Taylor Building Authority bonds in the amount of \$1.25 million to finance the construction of a fire station to replace the main fire station, and a new courthouse to replace the current courthouse. The City's investment in capital assets, net of related debt, increased from \$265 million to approximately \$269 million.

### Economic Factors and Next Year's Budgets

For the fiscal year ending June 30, 2005, the likelihood of reductions to State revenue sharing continue to be a concern for municipalities throughout the state of Michigan, including the City of Taylor. Recent projections are that the State of Michigan may have a budget shortfall of as much as \$370 million. Health care costs continue to rise, making it necessary for the City to negotiate co-pay arrangements with the City's employees. The City has also offered retirement incentives and voluntary lay-off plans in order to reduce the workforce and save on personal services. The decline in the financial markets in recent years has resulted in the need to increase City contributions to the pension plan by nearly \$1 million.

# City of Taylor, Michigan

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## Management's Discussion and Analysis (Continued)

On the other hand, the City continues to experience growth in its housing market and in the tax base. Even so, because of the impact of Proposal A, the City needs to continue to watch its budget very closely. The state-wide Tax Reform Act limited growth in taxable value on any individual property to the inflation factor of 2.3 percent for the 2004 tax year, and the limit will be 2.3 percent for the 2005 tax year as well. Because of the tax reduction factors, not even the full benefit of inflation is realized in property tax revenue. As costs such as health care continue to rise as much as 15 percent per year, the limitations on revenue growth give rise to the feeling that the municipal finance system in the state of Michigan is due for some changes.

### **Contacting the City's Management**

This financial report is intended to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the City's finances, and to show the City's accountability for the money it receives. If you have questions about this report or need additional information, contact the City Clerk's office, 23555 Goddard Road, Taylor, MI 48180.

# City of Taylor, Michigan

## Statement of Net Assets (Deficit) June 30, 2004

	Primary Government			
	Governmental Activities	Business-type Activities	Total	Component Units
<b>Assets</b>				
Cash and investments (Note 3)	\$ 6,208,367	\$ 2,289,278	\$ 8,497,645	\$ 9,607,310
Receivables - Net	3,685,824	2,841,261	6,527,085	380,665
Internal balances	645,970	(645,970)	-	-
Due from other governmental units	5,417,865	-	5,417,865	1,274,393
Prepaid costs and other assets	1,178,073	323	1,178,396	3,001,402
Long-term advances to (from) other funds	1,200,000	(1,200,000)	-	-
Inventories	-	437,960	437,960	-
Restricted assets (Note 8)	14,165,658	11,466,790	25,632,448	3,292,462
Nondepreciable capital assets - Net (Note 5)	28,053,161	11,191,209	39,244,370	18,337,886
Depreciable capital assets - Net (Note 5)	146,509,359	165,685,489	312,194,848	29,452,983
Total assets	207,064,277	192,066,340	399,130,617	65,347,101
<b>Liabilities</b>				
Accounts payable	4,163,859	1,777,192	5,941,051	1,508,672
Accrued and other liabilities	3,813,088	1,467,580	5,280,668	787,189
Due to other governmental units	116,651	743,660	860,311	1,712,987
Noncurrent liabilities:				
Bond premium	237,500	-	237,500	-
Debt due within one year (Note 7)	3,335,087	3,852,146	7,187,233	3,747,541
Debt due in more than one year (Note 7)	46,918,474	65,677,005	112,595,479	74,653,081
Compensated absences due within one year	1,522,883	-	1,522,883	-
Compensated absences due in more than one year	3,745,528	-	3,745,528	-
Total liabilities	63,853,070	73,517,583	137,370,653	82,409,470
<b>Net Assets (Deficit)</b>				
Invested in capital assets - Net of related debt	137,430,810	107,347,547	244,778,357	23,202,250
Restricted:				
Construction and other expenditures	499,910	-	499,910	-
Major and local streets projects	1,129,526	-	1,129,526	-
Police forfeiture	1,473,523	-	1,473,523	-
Debt service	2,511,165	11,466,790	13,977,955	-
Sewer	-	865,998	865,998	-
Component units	-	-	-	2,593,241
Unrestricted	166,273	(1,131,578)	(965,305)	(42,857,860)
Total net assets (deficit)	\$ 143,211,207	\$ 118,548,757	\$ 261,759,964	\$ (17,062,369)

# City of Taylor, Michigan

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government:				
Governmental activities:				
General government	\$ 10,808,382	\$ 6,199,643	\$ 1,231,118	\$ 121,878
Public safety	23,728,945	4,063,475	1,484,024	129,040
Public works	15,172,428	308,142	4,167,950	3,715,303
Community and economic development	1,393,208	133,504	763,826	-
Recreation and culture	5,072,953	855,205	111,852	92,400
Interest on long-term debt	2,348,952	-	-	-
Total governmental activities	58,524,868	11,559,969	7,758,770	4,058,621
Business-type activities:				
Water	5,711,061	5,271,824	-	398,009
Sewer	8,173,541	5,036,863	-	343,494
Taylor Sportsplex	2,581,705	1,983,298	-	279,545
Golf courses	6,079,940	4,473,911	-	390,535
Ecorse Creek	303,380	216,163	-	-
Total business-type activities	22,849,627	16,982,059	-	1,411,583
Total primary government	<b>\$ 81,374,495</b>	<b>\$ 28,542,028</b>	<b>\$ 7,758,770</b>	<b>\$ 5,470,204</b>
Component units:				
Local Development Financing Authority	\$ -	\$ -	\$ -	\$ -
Tax Increment Financing Authority	7,207,102	-	-	-
Brownfield Redevelopment Authority	303,230	-	-	-
Downtown Development Authority	1,170,236	-	-	17,758
Housing Commission	14,668,203	6,558,845	7,069,184	-
Total component units	<b>\$ 23,348,771</b>	<b>\$ 6,558,845</b>	<b>\$ 7,069,184</b>	<b>\$ 17,758</b>
General revenues:				
Property taxes				
State-shared revenues				
Unrestricted investment earnings				
Rental income and fees				
Gain on disposal of assets				
Miscellaneous				
Total general revenues				
<b>Change in Net Assets</b>				
<b>Net Assets (Deficit) - Beginning of year</b>				
<b>Net Assets (Deficit) - End of year</b>				

## Statement of Activities Year Ended June 30, 2004

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			
Governmental Activities	Business-type Activities	Total	Component Units
\$ (3,255,743)	\$ -	\$ (3,255,743)	\$ -
(18,052,406)	-	(18,052,406)	-
(6,981,033)	-	(6,981,033)	-
(495,878)	-	(495,878)	-
(4,013,496)	-	(4,013,496)	-
(2,348,952)	-	(2,348,952)	-
(35,147,508)	-	(35,147,508)	-
-	(41,228)	(41,228)	-
-	(2,793,184)	(2,793,184)	-
-	(318,862)	(318,862)	-
-	(1,215,494)	(1,215,494)	-
-	(87,217)	(87,217)	-
-	(4,455,985)	(4,455,985)	-
(35,147,508)	(4,455,985)	(39,603,493)	-
-	-	-	-
-	-	-	(7,207,102)
-	-	-	(303,230)
-	-	-	(1,152,478)
-	-	-	(1,040,174)
-	-	-	(9,702,984)
24,841,759	3,927,706	28,769,465	11,092,289
8,223,220	-	8,223,220	-
279,814	220,074	499,888	125,628
512,121	42,820	554,941	-
1,561,059	(2,097)	1,558,962	-
1,070,883	25,486	1,096,369	556,130
36,488,856	4,213,989	40,702,845	11,774,047
1,341,348	(241,996)	1,099,352	2,071,063
141,869,859	118,790,753	260,660,612	(19,133,432)
<b>\$ 143,211,207</b>	<b>\$ 118,548,757</b>	<b>\$ 261,759,964</b>	<b>\$ (17,062,369)</b>

# City of Taylor, Michigan

## Governmental Funds Balance Sheet June 30, 2004

	General Fund	2003 TBA Project Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
<b>Assets</b>				
Cash and investments	\$ 2,385,439	\$ -	\$ 3,822,928	\$ 6,208,367
Receivables:				
Taxes	2,178,665	-	-	2,178,665
Special assessments	242,511	-	10,781	253,292
Other	1,243,867	10,000	-	1,253,867
Due from other governmental units	4,669,476	-	748,389	5,417,865
Due from other funds	1,034,573	4,824	1,537,464	2,576,861
Prepaid costs and other assets	1,160,073	-	18,000	1,178,073
Long-term interfund receivable	1,200,000	-	-	1,200,000
Restricted assets	-	10,466,083	3,699,575	14,165,658
<b>Total assets</b>	<b>\$ 14,114,604</b>	<b>\$ 10,480,907</b>	<b>\$ 9,837,137</b>	<b>\$ 34,432,648</b>
<b>Liabilities and Fund Balances</b>				
<b>Liabilities</b>				
Accounts payable	\$ 3,066,267	\$ 72,643	\$ 1,024,949	\$ 4,163,859
Due to other governmental units	116,651	-	-	116,651
Due to other funds	1,105,374	-	825,517	1,930,891
Accrued and other liabilities	2,883,606	-	101,489	2,985,095
Deferred revenue	1,119,113	-	57,381	1,176,494
<b>Total liabilities</b>	<b>8,291,011</b>	<b>72,643</b>	<b>2,009,336</b>	<b>10,372,990</b>
<b>Fund Balances</b>				
Reserved for:				
Construction and other expenditures	499,910	10,408,264	2,713,587	13,621,761
Long-term assets	1,200,000	-	-	1,200,000
Unreserved - Reported in:				
General Fund	4,123,683	-	-	4,123,683
Special Revenue Funds	-	-	2,603,049	2,603,049
Debt Service Funds	-	-	2,511,165	2,511,165
<b>Total fund balances</b>	<b>5,823,593</b>	<b>10,408,264</b>	<b>7,827,801</b>	<b>24,059,658</b>
<b>Total liabilities and fund balances</b>	<b>\$ 14,114,604</b>	<b>\$ 10,480,907</b>	<b>\$ 9,837,137</b>	<b>\$ 34,432,648</b>



# City of Taylor, Michigan

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## **Governmental Funds Reconciliation of the Balance Sheet to the Statement of Net Assets (Deficit) June 30, 2004**

<b>Fund Balance - Total Governmental Funds</b>	<b>\$ 24,059,658</b>
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Amounts reported for governmental activities in the statement of net assets (deficit) are different because:

Capital assets used in governmental activities are not financial resources and are not reported in the governmental funds	174,562,520
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Special assessment and other receivables are expected to be collected over several years, and are not available to pay for current year expenditures	1,176,494
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Long-term liabilities are not due and payable in the current period and are not reported in the governmental funds:

Long-term debt	(50,253,561)
Compensated absences	(5,268,410)
Bond premium	(237,500)
Tax rebates	(124,766)
Workers' compensation claims	(46,540)
Accrued interest	<u>(656,688)</u>

<b>Net Assets - Governmental Activities</b>	<b><u>\$ 143,211,207</u></b>
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# City of Taylor, Michigan

## Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended June 30, 2004

	General Fund	2003 TBA Project Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
<b>Revenues</b>				
Property taxes	\$ 24,382,855	\$ -	\$ 1,427,849	\$ 25,810,704
Licenses and permits	737,283	-	1,355,517	2,092,800
Federal sources	298,971	-	1,676,960	1,975,931
State sources	8,735,686	-	4,265,665	13,001,351
Charges for services	3,004,897	-	-	3,004,897
Fines and forfeitures	4,036,088	-	-	4,036,088
Interest and rent	537,200	152,911	3,783,605	4,473,716
DMA /911 revenue	-	-	1,167,173	1,167,173
Other	8,453,558	-	57,143	8,510,701
Total revenues	50,186,538	152,911	13,733,912	64,073,361
<b>Expenditures</b>				
General government	7,457,811	-	-	7,457,811
Public safety	15,789,080	-	-	15,789,080
Public works and capital projects	13,215,972	-	5,534,453	18,750,425
Community development	-	-	892,992	892,992
Recreation and cultural	3,122,351	-	-	3,122,351
General administration	636,033	-	-	636,033
Construction and development	-	-	488,669	488,669
Employee benefits	9,703,635	-	-	9,703,635
Capital outlay and other	-	4,649,422	1,756,609	6,406,031
Debt service	582,640	-	4,946,518	5,529,158
Total expenditures	50,507,522	4,649,422	13,619,241	68,776,185
<b>Excess of Revenues Over (Under) Expenditures</b>	(320,984)	(4,496,511)	114,671	(4,702,824)
<b>Other Financing Sources (Uses)</b>				
Transfers in	-	-	1,364,084	1,364,084
Transfers out	(310,000)	-	(1,054,084)	(1,364,084)
Bond issuance	-	1,250,000	-	1,250,000
Proceeds of land, building, and equipment sales	2,221,768	-	-	2,221,768
Total other financing sources (uses)	1,911,768	1,250,000	310,000	3,471,768
<b>Net Change in Fund Balances</b>	1,590,784	(3,246,511)	424,671	(1,231,056)
<b>Fund Balances - Beginning of year</b>	4,232,809	13,654,775	7,403,130	25,290,714
<b>Fund Balances - End of year</b>	<u>\$ 5,823,593</u>	<u>\$ 10,408,264</u>	<u>\$ 7,827,801</u>	<u>\$ 24,059,658</u>

# City of Taylor, Michigan

## **Governmental Funds Reconciliation of Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2004**

**Net Change in Fund Balances - Total Governmental Funds** \$ (1,231,056)

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation (416,867)

Capital contribution from TIFA and DDA is not a current financial resource 3,020,990

Proceeds from asset sales are recorded in the governmental funds; on the statement of activities, a gain is recorded (660,709)

Special assessment revenues are recorded in the statement of activities when the assessment is set; they are not reported in the funds until collected or collectible within 60 days of year end (79,188)

Revenue reported in the statement of activities that does not provide current financial resources and is not reported as revenue in the governmental funds (GASB No. 33) (289,994)

Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt) 2,723,570

Bond proceeds and premiums are not reported as other financing sources on the statement of activities (1,237,840)

Increase in accumulated employee sick and vacation pay, as well as estimated general liability claims, is recorded when earned in the statement of activities (487,558)

**Change in Net Assets of Governmental Activities** \$ 1,341,348

# City of Taylor, Michigan

## Proprietary Funds Statement of Net Assets June 30, 2004

	Water	Sewer	Taylor Sportsplex	Golf Courses	Nonmajor - Ecorse Creek	Total Enterprise Funds
<b>Current Assets</b>						
Cash and investments	\$ 929,796	\$ 774,976	\$ 41,235	\$ 126,221	\$ 417,050	\$ 2,289,278
Receivables:						
Customers	1,349,762	1,374,805	-	-	58,220	2,782,787
Other	33,650	-	7,160	17,664	-	58,474
Due from other funds	49,524	1,855,668	-	-	152,151	2,057,343
Prepaid costs and other assets	-	323	-	-	-	323
Inventories	193,269	896	75,345	168,450	-	437,960
<b>Total current assets</b>	<b>2,556,001</b>	<b>4,006,668</b>	<b>123,740</b>	<b>312,335</b>	<b>627,421</b>	<b>7,626,165</b>
<b>Noncurrent Assets</b>						
Restricted assets	-	11,466,790	-	-	-	11,466,790
Capital assets	26,209,157	95,528,025	28,374,309	26,477,156	288,051	176,876,698
<b>Total noncurrent assets</b>	<b>26,209,157</b>	<b>106,994,815</b>	<b>28,374,309</b>	<b>26,477,156</b>	<b>288,051</b>	<b>188,343,488</b>
<b>Total assets</b>	<b>28,765,158</b>	<b>111,001,483</b>	<b>28,498,049</b>	<b>26,789,491</b>	<b>915,472</b>	<b>195,969,653</b>
<b>Current Liabilities</b>						
Accounts payable	589,203	513,169	214,821	309,174	150,825	1,777,192
Due to other funds	1,923,565	-	-	773,060	6,688	2,703,313
Due to other governmental units	-	743,660	-	-	-	743,660
Accrued and other liabilities	412,662	439,563	87,292	528,063	-	1,467,580
Current portion of long-term debt	-	3,478,848	285,000	88,298	-	3,852,146
<b>Total current liabilities</b>	<b>2,925,430</b>	<b>5,175,240</b>	<b>587,113</b>	<b>1,698,595</b>	<b>157,513</b>	<b>10,543,891</b>
<b>Noncurrent Liabilities</b>						
Long-term advances from other funds	-	-	-	1,200,000	-	1,200,000
Long-term debt - Net of current portion	-	60,691,792	4,710,000	275,213	-	65,677,005
<b>Total liabilities</b>	<b>2,925,430</b>	<b>65,867,032</b>	<b>5,297,113</b>	<b>3,173,808</b>	<b>157,513</b>	<b>77,420,896</b>
<b>Net Assets</b>						
Invested in capital assets - Net of related debt	26,209,157	31,357,385	23,379,309	26,113,645	288,051	107,347,547
Restricted for debt service	-	11,466,790	-	-	-	11,466,790
Restricted for sewer grant expenditures	-	865,998	-	-	-	865,998
Unrestricted	(369,429)	1,444,278	(178,373)	(2,497,962)	469,908	(1,131,578)
<b>Total net assets</b>	<b>\$ 25,839,728</b>	<b>\$ 45,134,451</b>	<b>\$ 23,200,936</b>	<b>\$ 23,615,683</b>	<b>\$ 757,959</b>	<b>\$ 118,548,757</b>

# City of Taylor, Michigan

## Proprietary Funds Statement of Revenue, Expenses, and Changes in Net Assets Year Ended June 30, 2004

	Water	Sewer	Taylor Sportsplex	Golf Courses	Nonmajor - Ecorse Creek	Total Enterprise Funds
<b>Operating Revenues</b>						
Water sales	\$ 4,138,438	\$ -	\$ -	\$ -	\$ -	\$ 4,138,438
Sewage disposal services	-	4,855,523	-	-	-	4,855,523
Charges for services	1,153,606	181,340	116,022	2,416,380	216,163	4,083,511
Sales of merchandise	-	-	398,425	2,057,531	-	2,455,956
Rental income	-	-	1,101,729	-	-	1,101,729
Other	13,489	40,920	367,122	-	-	421,531
Total operating revenues	5,305,533	5,077,783	1,983,298	4,473,911	216,163	17,056,688
<b>Operating Expenses</b>						
Cost of water operations	4,640,252	-	-	-	-	4,640,252
Cost of sewage disposal operations	-	5,013,900	-	-	-	5,013,900
Ecorse Creek user charge system	-	-	-	-	303,380	303,380
Cost of sales	-	-	194,750	824,003	-	1,018,753
Operation and maintenance	-	-	930,516	1,297,129	-	2,227,645
General and administrative	-	-	884,268	2,393,057	-	3,277,325
Other expenses	-	518	-	18,666	-	19,184
Depreciation and amortization	1,070,418	1,583,552	572,171	1,508,920	-	4,735,061
Total operating expenses	5,710,670	6,597,970	2,581,705	6,041,775	303,380	21,235,500
<b>Operating Loss</b>	(405,137)	(1,520,187)	(598,407)	(1,567,864)	(87,217)	(4,178,812)
<b>Nonoperating Revenue (Expenses)</b>						
Property taxes	-	3,927,706	-	-	-	3,927,706
Gain (loss) on disposal of assets	47	-	-	(2,144)	-	(2,097)
Interest income	20,426	194,791	-	-	4,857	220,074
Interest expense	-	(1,575,571)	-	(38,165)	-	(1,613,736)
Total nonoperating revenue (expenses)	20,473	2,546,926	-	(40,309)	4,857	2,531,947
<b>Net Income (Loss) - Before donated assets</b>	(384,664)	1,026,739	(598,407)	(1,608,173)	(82,360)	(1,646,865)
<b>Donated Assets</b>	391,295	343,494	279,545	390,535	-	1,404,869
<b>Change in Net Assets</b>	6,631	1,370,233	(318,862)	(1,217,638)	(82,360)	(241,996)
<b>Net Assets - Beginning of year</b>	25,833,097	43,764,218	23,519,798	24,833,321	840,319	118,790,753
<b>Net Assets - End of year</b>	<u>\$ 25,839,728</u>	<u>\$ 45,134,451</u>	<u>\$ 23,200,936</u>	<u>\$ 23,615,683</u>	<u>\$ 757,959</u>	<u>\$ 118,548,757</u>

# City of Taylor, Michigan

## Proprietary Funds Statement of Cash Flows Year Ended June 30, 2004

	Water	Sewer	Taylor Sportsplex	Golf Courses	Nonmajor - Ecorse Creek	Total Enterprise Funds
<b>Cash Flows from Operating Activities</b>						
Receipts from customers	\$ 5,266,431	\$ 5,027,059	\$ 1,645,190	\$ 4,460,285	\$ 221,367	\$ 16,620,332
Payments to suppliers	(3,244,088)	(4,676,968)	(1,099,772)	(2,042,095)	(152,735)	(11,215,658)
Payments to employees	(1,602,758)	(394,003)	(878,819)	(2,302,036)	-	(5,177,616)
Internal activity - Payments to other funds	(90,577)	178,093	-	266,147	(217,102)	136,561
Other receipts	13,489	40,402	367,122	-	-	421,013
Net cash provided by (used in) operating activities	342,497	174,583	33,721	382,301	(148,470)	784,632
<b>Cash Flows from Capital and Related Financing Activities</b>						
Purchase of capital assets	(1,578,451)	(844,311)	(5,450)	(1,289)	(288,051)	(2,717,552)
Proceeds from sales of capital assets	2,444	-	-	-	-	2,444
Principal and interest paid on capital debt	-	-	-	(121,747)	-	(121,747)
Payments on long-term advances	-	-	-	(271,966)	-	(271,966)
Payments to the County	-	(3,930,058)	-	-	-	(3,930,058)
Property taxes	-	3,927,706	-	-	-	3,927,706
Net cash used in capital and related financing activities	(1,576,007)	(846,663)	(5,450)	(395,002)	(288,051)	(3,111,173)
<b>Cash Flows from Investing Activities -</b>						
Interest received on investments	20,426	17,836	-	-	4,857	43,119
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	(1,213,084)	(654,244)	28,271	(12,701)	(431,664)	(2,283,422)
<b>Cash and Cash Equivalents - Beginning of year</b>	2,142,880	1,429,220	12,964	138,922	848,714	4,572,700
<b>Cash and Cash Equivalents - End of year</b>	<b>\$ 929,796</b>	<b>\$ 774,976</b>	<b>\$ 41,235</b>	<b>\$ 126,221</b>	<b>\$ 417,050</b>	<b>\$ 2,289,278</b>
<b>Reconciliation of Operating Loss to Net Cash from Operating Activities</b>						
Operating loss	\$ (405,137)	\$ (1,520,187)	\$ (598,407)	\$ (1,567,864)	\$ (87,217)	\$ (4,178,812)
Adjustments to reconcile operating loss to net cash from operating activities:						
Depreciation and amortization	1,070,418	1,583,552	572,171	1,508,920	-	4,735,061
Changes in assets and liabilities:						
Receivables	(25,613)	(9,804)	29,014	(13,626)	5,204	(14,825)
Due to other funds	(266,987)	(107,281)	-	266,147	(64,951)	(173,072)
Other assets	(18,499)	1,704	(28,151)	(31,114)	-	(76,060)
Accounts payable	(254,286)	(60,384)	53,645	116,763	150,645	6,383
Accrued and other liabilities	66,191	1,609	5,449	103,075	-	176,324
Due from other funds	176,410	285,374	-	-	(152,151)	309,633
Net cash provided by (used in) operating activities	<b>\$ 342,497</b>	<b>\$ 174,583</b>	<b>\$ 33,721</b>	<b>\$ 382,301</b>	<b>\$ (148,470)</b>	<b>\$ 784,632</b>

**Noncash Investing, Capital, and Financing Activities** - During the year ended June 30, 2004, various parties and various developers constructed water and sewer lines with an estimated value of \$734,789 and donated them to the Commission. During the year ended June 30, 2004, \$390,535 of assets constructed by the TIFA were contributed to the golf courses. In addition, during the year ended June 30, 2004, \$270,000 of debt principal payments and \$9,545 of interest payments were contributed to the Taylor Sportsplex by the Taylor Building Authority Debt Service Fund. The City also had several noncash transactions with the assets held at Wayne County, including interest earnings of \$176,955, debt payments of \$3,449,050, and interest payments of \$1,575,571.

# City of Taylor, Michigan

## Fiduciary Funds Statement of Net Assets June 30, 2004

	Pension and Other Employee Benefit Plans*	Agency Funds
<b>Assets</b>		
Cash and equivalents	\$ 2,471,829	\$ 2,033,025
Investments:		
Corporate bonds	19,969,682	-
U.S. government securities	33,767,411	-
Common and preferred stock	63,029,812	-
Money market	3,026,466	248,745
Annuity contracts	4,654,407	-
Mutual funds	17,059,827	-
Due from other governmental units	-	65,542
Accrued interest	771,753	-
Total assets	144,751,187	<u><u>\$ 2,347,312</u></u>
<b>Liabilities</b>		
Accounts payable	-	\$ 26
Due to other governmental units	-	2,191,581
Cash bonds and deposits	-	111,557
Tax collections distributable	-	44,148
Refunds payable	-	-
Total liabilities	-	<u><u>\$ 2,347,312</u></u>
<b>Net Assets</b> - Held in trust for pension and other employee benefits	<u><u>\$ 144,751,187</u></u>	

\* Balances are as of December 31, 2003 for the General Employees' Pension Plan and as of June 30, 2004 for the Police and Fire Retirement System.

# City of Taylor, Michigan

## Fiduciary Funds Statement of Changes in Net Assets Year Ended June 30, 2004

	Pension and Other Employee Benefit Plans*
<b>Additions</b>	
Investment income:	
Interest and dividends	\$ 4,329,789
Net increase in fair value of investments	12,537,637
Less investment expenses	<u>(392,306)</u>
Net investment income	16,475,120
Contributions:	
Employer	2,641,552
Employee	<u>1,160,464</u>
Total contributions	<u>3,802,016</u>
Total additions - Net of investment expenses	20,277,136
<b>Deductions</b>	
General and administrative	156,539
Benefit payments	<u>12,060,140</u>
Total deductions	<u>12,216,679</u>
<b>Net Increase in Net Assets</b>	8,060,457
<b>Net Assets Held in Trust for Pension and Other Employee Benefits</b>	
Beginning of year	<u>136,690,730</u>
End of year	<u><b>\$ 144,751,187</b></u>

\* Balances are as of December 31, 2003 for the General Employees' Pension Plan and as of June 30, 2004 for the Police and Fire Retirement System.



# City of Taylor, Michigan

## Component Units Statement of Net Assets (Deficit) June 30, 2004

	Local Development Financing Authority	Tax Increment Financing Authority	Brownfield Redevelopment Authority	Downtown Development Authority	Housing Commission*	Totals
<b>Assets</b>						
Cash and investments	\$ 15,136	\$ 7,690,518	\$ 420,317	\$ 400,310	\$ 1,081,029	\$ 9,607,310
Accounts receivable	-	-	-	-	380,665	380,665
Due from other governmental units	38,570	848,142	3,000	13,758	370,923	1,274,393
Deferred charges	-	-	-	-	2,288,585	2,288,585
Prepaid expenses and other assets	-	-	-	-	712,817	712,817
Restricted assets	-	-	-	699,221	2,593,241	3,292,462
Capital assets	17,745	13,595,375	77,187	811,672	33,288,890	47,790,869
<b>Total assets</b>	<b>71,451</b>	<b>22,134,035</b>	<b>500,504</b>	<b>1,924,961</b>	<b>40,716,150</b>	<b>65,347,101</b>
<b>Liabilities</b>						
Accounts payable	-	492,511	52,675	191,143	772,343	1,508,672
Due to other governmental units	-	1,647,055	65,542	-	390	1,712,987
Tenant security deposits	-	-	-	-	23,958	23,958
Accrued and other liabilities	-	433,313	-	41,494	288,424	763,231
Long-term debt	-	48,840,000	-	2,370,000	27,190,622	78,400,622
<b>Total liabilities</b>	<b>-</b>	<b>51,412,879</b>	<b>118,217</b>	<b>2,602,637</b>	<b>28,275,737</b>	<b>82,409,470</b>
<b>Net Assets (Deficit)</b>						
Investment in capital assets - Net of related debt	17,745	13,595,375	77,187	811,672	8,700,271	23,202,250
Restricted	-	-	-	-	2,593,241	2,593,241
Unrestricted	53,706	(42,874,219)	305,100	(1,489,348)	1,146,901	(42,857,860)
<b>Total net assets (deficit)</b>	<b>\$ 71,451</b>	<b>\$ (29,278,844)</b>	<b>\$ 382,287</b>	<b>\$ (677,676)</b>	<b>\$ 12,440,413</b>	<b>\$ (17,062,369)</b>

\* Balances are as of March 31, 2004 for Housing Commission and as of June 30, 2004 for the Taylor Community Development Corp., its component unit.

# City of Taylor, Michigan

	Program Revenues		
	Expenses	Charges for Services	Operating Grants/ Contributions Capital Grants/ Contributions
Local Development Financing Authority - Public Works	\$ -	\$ -	\$ -
Tax Increment Financing Authority - Public Works	7,207,102	-	-
Brownfield Redevelopment Authority - Public Works	303,230	-	-
Downtown Development Authority - Public Works	1,170,236	-	17,758
Housing Commission	14,668,203	6,558,845	7,069,184
Total component unit activities	<u>\$ 23,348,771</u>	<u>\$ 6,558,845</u>	<u>\$ 7,069,184</u> <u>\$ 17,758</u>
General revenues:			
Capture taxes			
Interest			
Other			
Total general revenues			
<b>Change in Net Assets (Deficit)</b>			
<b>Net Assets (Deficit) - Beginning of year</b>			
<b>Net Assets (Deficit) - End of year</b>			

\* Balances are as of March 31, 2003 for the Housing Commission and as of June 30, 2003 for the Taylor Community Development Corp., its component unit.

**Component Units  
Statement of Activities  
Year Ended June 30, 2004**

Net (Expense) Revenue and Changes in Net Assets					
Local Development Financing Authority	Tax Increment Financing Authority	Brownfield Redevelopment Authority	Downtown Development Authority	Housing Commission*	Total
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	(7,207,102)	-	-	-	(7,207,102)
-	-	(303,230)	-	-	(303,230)
-	-	-	(1,152,478)	-	(1,152,478)
-	-	-	-	(1,040,174)	(1,040,174)
-	(7,207,102)	(303,230)	(1,152,478)	(1,040,174)	(9,702,984)
38,570	10,405,144	391,075	257,500	-	11,092,289
116	93,734	2,245	9,820	19,713	125,628
-	3,803	-	812	551,515	556,130
38,686	10,502,681	393,320	268,132	571,228	11,774,047
38,686	3,295,579	90,090	(884,346)	(468,946)	2,071,063
32,765	(32,574,423)	292,197	206,670	12,909,359	(19,133,432)
<b>\$ 71,451</b>	<b>\$ (29,278,844)</b>	<b>\$ 382,287</b>	<b>\$ (677,676)</b>	<b>\$ 12,440,413</b>	<b>\$ (17,062,369)</b>

### **Note I - Summary of Significant Accounting Policies**

The accounting policies of the City of Taylor, Michigan (the "City") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the City of Taylor, Michigan:

#### **Reporting Entity**

The City of Taylor, Michigan is governed by an elected seven-member council. The accompanying financial statements present the City and its component units, entities for which the City is considered to be financially accountable. Although blended component units are legal separate entities, in substance, they are part of the City's operations. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the City (see discussion below for description).

**Blended Presented Component Units** - The Taylor Building Authority is governed by a board that is appointed by the mayor. Although it is legally separate from the City, it is reported as if it were part of the primary government because its primary purpose is to finance and construct the City's public buildings.

The 23<sup>rd</sup> Judicial District Court is reported within the Trust and Agency Fund. Although it is legally separate from the City, it is reported as if it were part of the primary government because of the fiduciary relationship it has with the City.

**Discretely Presented Component Units** - The Local Development Financing Authority and the Tax Increment Financing Authority (the "Authorities") were created to promote economic development within a seven-square mile district of the City and are funded primarily by property tax revenue captures. The Authorities are governed by 11-member and 13-member boards, respectively, and are appointed by the mayor and confirmed by the City Council.

The Downtown Development Authority (DDA) was created to correct and prevent deterioration in the downtown district, encourage historical preservation, and to promote economic growth within that district. The DDA's governing body, which consists of 13 members, is appointed by the mayor and confirmed by the City Council. In addition, the DDA's budget is subject to approval by the City Council.

### **Note 1 - Summary of Significant Accounting Policies (Continued)**

The Brownfield Redevelopment Authority was created, pursuant to Public Act 381 of 1996, to promote revitalization of environmentally distressed areas within the 24-square mile boundary of the City. The Brownfield Redevelopment Authority is funded primarily by property tax revenue captures. The Brownfield Redevelopment Authority is governed by a 13-member board that is appointed by the mayor and confirmed by the City Council.

Separate financial statements for the above discretely presented component units are not prepared.

The Taylor Housing Commission is a nonprofit corporation that was organized under the laws of the State of Michigan to provide low-rent housing for qualified individuals in accordance with the rules and regulations prescribed by the Department of Housing and Urban Development (HUD). The Taylor Housing Commission operates with a fiscal year ended March 31. The Taylor Housing Commission is governed by a five-member board that is appointed by the mayor and confirmed by the City Council.

The Taylor Community Development Corporation (TCDC) is a nonprofit organization formed by its sole member, the Taylor Housing Commission, to acquire, renovate, and operate certain apartment complexes located within the city of Taylor, Michigan. The City acquired these apartment complexes, now known as the Villages of Taylor (the "Project"), and then donated the complexes to the TCDC. The TCDC is operated by a seven-member Board of Directors appointed by the Taylor Housing Commission. The TCDC is a component unit of the Taylor Housing Commission.

The Project is operated and regulated by a use agreement with the U.S. Department of Housing and Urban Development (HUD) with respect to rental charges and operating methods. The Project's major program is its Section 8 Housing Assistance Payments agreements with HUD. During the year ended June 30, 2004, rental revenue from HUD totaled \$7,069,184, representing 50 percent of net rental revenue.

A complete financial statement for the Taylor Housing Commission can be obtained at 15270 Plaza South, Taylor, MI 48180.

### **Note 1 - Summary of Significant Accounting Policies (Continued)**

#### **Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets (deficit) and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual Enterprise Funds are reported as separate columns in the fund financial statements.

#### **Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund, fiduciary fund, and component unit financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

### **Note I - Summary of Significant Accounting Policies (Continued)**

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. The following major revenue sources meet the availability criterion: State-shared revenue, State gas and weight tax revenue, district court fines, and interest associated with the current fiscal period. Conversely, special assessments and federal grant reimbursements will be collected after the period of availability; receivables have been recorded for these, along with a "deferred revenue" liability.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

The City reports the following major governmental funds:

**General Fund** - The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

**2003 TBA Project Fund** - The 2003 TBA Project Fund accounts for the activity associated with the municipal improvement project (primarily the construction/renovation of a courthouse and fire station) and other miscellaneous improvement projects.

The City reports the following major proprietary funds:

**Water Fund** - The Water Fund accounts for the activities of the water distribution system.

**Sewer Fund** - The Sewer Fund accounts for the activities of the sewage collection system.

**Taylor Sportsplex Fund** - The Taylor Sportsplex Fund accounts for the activity of the Taylor Sportsplex, which primarily is the revenue related to charges for services and rentals along with the expenses of maintaining and operating the Taylor Sportsplex.

### **Note 1 - Summary of Significant Accounting Policies (Continued)**

**Golf Courses Fund** - The Golf Courses Fund accounts for the activity related to the City's two golf courses, Taylor Meadows and Lakes of Taylor.

Additionally, the City reports the following fund types:

**Pension Trust Fund** - The Pension Trust Fund accounts for the activities of the City's two defined benefit pension plans, including the Police and Fire Retirement System and the General Employees' Pension Plan. The General Employees' Pension Plan is audited as of December 31, 2003. Therefore, the General Employees' Pension Plan is included in this report as of December 31, 2003. The plans accumulate resources for pension benefit payments to qualified employees.

**Agency Funds** - The Agency Funds account for assets held by the City in a trustee capacity. Agency Funds are custodial in nature (assets equal liabilities) and do not involve the measurement of the results of operations. The City's Agency Funds are its Tax Receiving Fund and the 23<sup>rd</sup> District Court Fund.

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The City has elected not to follow private sector standards issued after November 30, 1989 for its business-type activities.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the City's water and sewer function and various other functions of the City. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.



### **Note 1 - Summary of Significant Accounting Policies (Continued)**

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary funds relates to charges to customers for sales, rentals, and services. The Water and Sewer Funds also recognize the portion of tap fees intended to recover current costs (e.g., labor and materials to hook up new customers) as operating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative and operating expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

#### **Property Tax Revenue**

Property taxes are levied on each July 1 on the taxable valuation of property as of the preceding December 31. Taxes are considered delinquent on March 1 of the following year, at which time penalties and interest are assessed.

The City's 2003 tax is levied and collectible on July 1, 2003, and is recognized as revenue in the year ended June 30, 2004, when the proceeds of the levy are budgeted and available for the financing of operations.

The 2003 taxable valuation of the City totaled \$1,438,038,547, on which taxes levied consisted of 8.5232 mills for operating purposes, 0.8970 mills for library services, 3.0200 mills for public safety pension, 1.3086 mills for disposal authority, 2.6914 mills for garbage and rubbish services, 0.0435 mills for publicity services, 2.7000 mills for the building authority, 3.4247 for EPA debt, and .9718 mills for the Southend Project. This resulted in approximately \$9,900,000 for operating purposes, \$1,000,000 for library services, \$3,500,000 for public safety pension, \$1,500,000 for disposal authority, \$3,000,000 for garbage and rubbish services, \$51,000 for publicity services, \$3,100,000 for the building authority, \$4,000,000 for EPA debt, and \$1,400,000 for the Southend Project. These amounts are recognized in the respective General, Debt Service, and Enterprise Funds financial statements as tax revenue.

#### **Assets, Liabilities, and Net Assets or Equity**

**Bank Deposits and Investments** - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

### **Note 1 - Summary of Significant Accounting Policies (Continued)**

**Receivables and Payables** - In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances."

All trade and property tax receivables are shown as net of allowance for uncollectible amounts.

**Inventories and Prepaid Costs** - Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

**Restricted Assets** - Unspent bond proceeds of the Capital Projects Funds and Downtown Development Authority Fund are required to be set aside for construction. In addition, restricted assets also include assets held at Wayne County.

Restricted deposits in the Taylor Housing Commission represents assets held under various bond agreements in a separate account for replacement of property and other project expenditures as approved by the mortgagor. Restricted deposits are held in a separate account and generally are not available for operating purposes. During the year ended June 30, 2004, withdrawals of \$302,524 were taken from the replacement reserve.

**Capital Assets** - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

### Note 1 - Summary of Significant Accounting Policies (Continued)

Assets are depreciated using the straight-line method over the following useful lives:

Roads and sidewalks	10-65 years
Buildings	15-50 years
Sanitary sewer system	15-50 years
Water mains and meters	15-67 years
Improvements other than buildings	20 years
Machinery and equipment	2-20 years
Vehicles	4-10 years
Furniture and fixtures	10-20 years

**Compensated Absences (Vacation and Sick Leave)** - It is the City's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. All vacation pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year end.

**Long-term Obligations** - In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

**Fund Equity** - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

**Use of Estimates** - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

### Note 2 - Stewardship, Compliance, and Accountability

**Budgetary Information** - Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the General Fund and all Special Revenue Funds except that operating transfers, debt proceeds, bond premiums, and sales of fixed assets have been included in the "revenue" and/or "expenditure" categories, rather than as "other financing sources (uses)". All annual appropriations lapse at fiscal year end. The annual budget is prepared by the City management and adopted by the City Council; subsequent amendments are approved by the City Council.

The budget process is initiated in January, when the departments are given information and guidelines to assist them in formulating their budget requests. The department heads summarize the departmental appropriation requests and submit them to the mayor on or before March 1. During the month of March, the mayor reviews the appropriation requests, meets with the departments, and puts together the budget. The budget is submitted to the City Council on or before April 1. During the next month, the City Council reviews the budget and considers any changes. After a public hearing, the final budget is adopted by resolution no later than May 1.

The budget document presents information by fund, function, department, and line items. The legal level of budgetary control adopted by the governing body is the activity basis level.

The amount of encumbrances outstanding at June 30, 2004 has not been calculated. Budget appropriations are considered to be spent once the goods are delivered or the services rendered.

**Excess of Expenditures Over Appropriations in Budgeted Funds** - During the year, the City of Taylor incurred expenditures that were in excess of the amounts budgeted, as follows:

	Budget	Actual
General Fund - Transfer to Local Streets Fund	\$ -	\$ 310,000

**Fund Deficits** - There are no fund deficits on the modified accrual basis at June 30, 2004. The component units are presented on the full accrual basis in the basic financial statements, resulting in a deficit on that basis in the Tax Increment Financing Authority.

### Note 3 - Deposits and Investments

Michigan Compiled Laws, Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The investment policy adopted by the Council in accordance with Public Act 196 of 1997 has authorized investment in all of the items described above, except for bankers' acceptances of United States banks and obligations of the State of Michigan or its political subdivisions.

To the extent that cash from various funds has been pooled in an investment, related investment income is allocated to each fund based on relative participation in the pool, except that Agency Funds' investment earnings are allocated to the General Fund.

The City of Taylor's deposits and investment policies are in accordance with statutory authority.

At year end, the deposits and investments were reported in the basic financial statements in the following categories:

	Governmental Activities	Business-type Activities	Fiduciary Funds	Total Primary Government	Component Units
Cash and investments	\$ 6,208,367	\$ 2,289,278	\$ 146,261,204	\$ 154,758,849	\$ 9,607,310
Restricted assets (Note 8)	<u>14,165,658</u>	<u>-</u>	<u>-</u>	<u>14,165,658</u>	<u>889,490</u>
Total	<u>\$ 20,374,025</u>	<u>\$ 2,289,278</u>	<u>\$ 146,261,204</u>	<u>\$ 168,924,507</u>	<u>\$ 10,496,800</u>

### Note 3 - Deposits and Investments (Continued)

The breakdown between deposits and investments for the City is as follows:

	Primary Government	Component Units
Bank deposits (checking accounts, savings accounts, and certificates of deposit)	\$ 20,283,439	\$ 6,372,375
Investments in securities, mutual funds, and similar vehicles	148,610,768	4,122,000
Petty cash or cash on hand	30,300	2,425
Total	<u>\$ 168,924,507</u>	<u>\$ 10,496,800</u>

The bank balance of the City's deposits is approximately \$21,000,000, of which \$800,000 is covered by federal depository insurance and approximately \$20,200,000 is uninsured and uncollateralized.

The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the City evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

The component units' deposits had a bank balance of approximately \$6,200,000, of which \$600,000 was covered by federal depository insurance and approximately \$5,600,000 is uninsured and uncollateralized.

The pension trust funds are also authorized by Michigan Public Act 485 of 1996 (as amended) to invest in certain reverse repurchase agreements, stocks, diversified investment companies, annuity investment contracts, real estate leased to public entities, mortgages, real estate (if the trust fund's assets exceed \$250 million), debt or equity of certain small businesses, certain State and local government obligations, and certain other specified investment vehicles.

### Note 3 - Deposits and Investments (Continued)

Investments are categorized into these three categories of credit risk:

Category 1 - Insured or registered, with securities held by the City or its agent in the City's name;

Category 2 - Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the City's name; and

Category 3 - Uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the City's name.

At year end, the City's investment balances were categorized as follows:

	Category			Reported Amount (Fair Value)
	1	2	3	
Primary government:				
Corporate bonds*	\$ -	\$ -	\$ 19,969,682	\$ 19,969,682
U.S. government securities*	-	-	33,767,411	33,767,411
Common and preferred stock*	-	-	63,029,812	63,029,812
Subtotal	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 116,766,905</u>	116,766,905
Investments not subject to categorization:				
Money market				10,138,629
Annuity contracts				4,645,407
Mutual funds				17,059,827
Total primary government				<u>\$ 148,610,768</u>
Component units - Money market				<u>\$ 4,122,000</u>

\* Included within the City's two pension plans

Investments not subject to categorization are not evidenced by securities that exist in physical or book entry form. The bank investment pools, annuity contracts, and mutual funds are not categorized because they are not evidenced by securities that exist in physical or book entry form. The mutual funds are registered with the SEC. The bank investment pools are regulated by the Michigan Banking Act. The fair value of the position in the bank investment pools is the same as the value of the pool shares.

### Note 3 - Deposits and Investments (Continued)

Included in the General Employees' Retirement System investments at June 30, 2004 are the following:

- Approximately \$340,000 of securities issued by the Federal National Mortgage Association (FNMA) and approximately \$534,000 issued by the Federal Home Loan Mortgage Corporation (FHLMC). These investments are usually not backed by the full faith and credit of the U.S. government, but are generally considered to offer modest credit risks. The yields provided by these mortgage-related securities historically have exceeded the yields on other types of U.S. government securities with comparable maturities, in large measure due to the potential for prepayment. Prepayment could result in difficulty in reinvesting the prepaid amounts in investments with comparable yields.

Included in the Police and Fire Retirement System investments at June 30, 2004 are the following:

- Approximately \$177,000 of securities issued by the Government National Mortgage Association (GNMA). These investments are backed by the full faith and credit of the U.S. government. The yields provided by these mortgage-related securities historically have exceeded the yields on other types of U.S. government securities with comparable maturities, in large measure due to the potential for prepayment. Prepayment could result in difficulty in reinvesting the prepaid amounts in investments with comparable yields.
- Approximately \$11,531,000 of securities issued by the Federal National Mortgage Association (FNMA) and approximately \$1,662,000 of securities issued by the Federal Home Loan Mortgage Corporation (FHLMC) or Federal Home Loan Bank (FHLB). These investments are usually not backed by the full faith and credit of the U.S. government, but are generally considered to offer modest credit risks. The yields provided by these mortgage-related securities historically have exceeded the yields on other types of U.S. government securities with comparable maturities, in large measure due to the potential for prepayment. Prepayment could result in difficulty in reinvesting the prepaid amounts in investments with comparable yields.
- Asset-backed securities of approximately \$2,284,000. These securities are backed by credit card or other receivables and typically include credit enhancements in the form of overcollateralization, third-party letters of credit, seller recourse, insurance company guarantees, and/or senior subordinated structures. These securities are generally considered to offer moderate credit risk, but such risk varies depending on the type of asset being securitized and the extent and nature of the credit enhancement. Prepayment of these "pay through" securities could result in difficulty reinvesting the prepaid amounts in investments with comparable yields.



### Note 4 - Deferred Revenue

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the deferred revenue, which consisted solely of unavailable funds, are as follows:

Delinquent property taxes	\$ 200,000
Special assessments	386,420
Grant receivables	165,008
ALS receivables	293,296
Other	131,770
<b>Total</b>	<b>\$ 1,176,494</b>

### Note 5 - Capital Assets

Capital asset activity of the City's governmental and business-type activities was as follows:

<b>Governmental Activities</b>	Balance July 1, 2003	Additions	Disposals and Adjustments	Reclassifications	Balance June 30, 2004
Capital assets not being depreciated:					
Land	\$ 21,198,653	\$ 882,504	\$ (535,390)	\$ -	\$ 21,545,767
Construction in progress	1,785,664	4,972,827	-	(251,097)	6,507,394
Subtotal	22,984,317	5,855,331	(535,390)	(251,097)	28,053,161
Capital assets being depreciated:					
Roads and sidewalks	210,304,577	3,179,198	-	251,097	213,734,872
Buildings and improvements	46,300,593	235,004	(102,270)	-	46,433,327
Other improvements	3,757,238	38,895	-	-	3,796,133
Machinery and equipment	28,636,437	1,569,608	(679,535)	-	29,526,510
Subtotal	288,998,845	5,022,705	(781,805)	251,097	293,490,842
Accumulated depreciation:					
Roads and sidewalks	114,448,353	4,319,133	-	-	118,767,486
Buildings and improvements	11,343,155	1,137,380	(45,340)	-	12,435,195
Other improvements	1,743,132	172,709	-	-	1,915,841
Machinery and equipment	11,829,417	2,644,690	(611,146)	-	13,862,961
Subtotal	139,364,057	8,273,912	(656,486)	-	146,981,483
Net capital assets being depreciated	149,634,788	(3,251,207)	(125,319)	251,097	146,509,359
Net capital assets	\$ 172,619,105	\$ 2,604,124	\$ (660,709)	\$ -	\$ 174,562,520

# City of Taylor, Michigan

## Notes to Financial Statements June 30, 2004

### Note 5 - Capital Assets (Continued)

Business-type Activities	Balance July 1, 2003	Additions	Disposals	Reclassifications	Balance June 30, 2004
Capital assets not being depreciated:					
Land	\$ 10,419,311	\$ 40,000	\$ -	\$ -	\$ 10,459,311
Construction in progress	436,246	2,378,671	(1,454)	(2,081,565)	731,898
Subtotal	10,855,557	2,418,671	(1,454)	(2,081,565)	11,191,209
Capital assets being depreciated:					
Land improvements	18,674,300	55,487	-	-	18,729,787
Machinery and equipment	3,640,513	261,380	(46,081)	72,416	3,928,228
Buildings and building improvements	31,984,110	143,699	-	-	32,127,809
Vehicles	646,234	37,744	(14,131)	-	669,847
Sanitary sewer system	106,324,313	429,147	-	772,084	107,525,544
Water mains and meters	32,571,180	428,549	(13,881)	1,309,481	34,295,329
Furniture and fixtures	1,327,236	68,201	(23,376)	(72,416)	1,299,645
Subtotal	195,167,886	1,424,207	(97,469)	2,081,565	198,576,189
Accumulated depreciation:					
Land improvements	4,100,527	1,197,819	-	-	5,298,346
Machinery and equipment	1,306,991	338,893	(43,960)	97,412	1,699,336
Buildings and building improvements	2,254,980	683,306	-	-	2,938,286
Vehicles	322,709	76,673	(14,131)	-	385,251
Sanitary sewer system	11,220,447	1,454,730	-	-	12,675,177
Water mains and meters	8,171,489	934,256	(13,881)	-	9,091,864
Furniture and fixtures	872,876	49,384	(22,408)	(97,412)	802,440
Subtotal	28,250,019	4,735,061	(94,380)	-	32,890,700
Net capital assets being depreciated	166,917,867	(3,310,854)	(3,089)	2,081,565	165,685,489
Net capital assets	\$ 177,773,424	\$ (892,183)	\$ (4,543)	\$ -	\$ 176,876,698

### Note 5 - Capital Assets (Continued)

The component unit capital assets are composed of the following:

	LDFA	TIFA	BRDA	DDA	Housing Commission	Total
Capital assets not being depreciated:						
Land	\$ 17,745	\$ 13,282,465	\$ 77,187	\$ 662,778	\$ 3,285,611	\$ 17,325,786
Assets held for sale*	-	-	-	-	1,012,100	1,012,100
Subtotal	17,745	13,282,465	77,187	662,778	4,297,711	18,337,886
Capital assets being depreciated:						-
Land improvements	-	265,813	-	88,000	4,330,646	4,684,459
Vehicles, machinery, and equipment	-	15,768	-	67,993	3,982,792	4,066,553
Building	-	57,937	-	-	32,036,582	32,094,519
Subtotal	-	339,518	-	155,993	40,350,020	40,845,531
Accumulated depreciation	-	(26,608)	-	(7,099)	(11,358,841)	(11,392,548)
Net capital assets being depreciated	-	312,910	-	148,894	28,991,179	29,452,983
Net capital assets	<u>\$ 17,745</u>	<u>\$ 13,595,375</u>	<u>\$ 77,187</u>	<u>\$ 811,672</u>	<u>\$ 33,288,890</u>	<u>\$ 47,790,869</u>

\* A portion of the property is being converted to condominiums for eventual sales. As such, those assets are segregated and not depreciated for financial statement purposes.

Depreciation expense was charged to programs of the primary government as follows:

#### Governmental activities:

General government	\$ 355,834
Public safety	1,919,949
Public works	5,036,376
Economic development	9,104
Recreation and culture	952,649

Total governmental activities \$ 8,273,912

#### Business-type activities:

Water	\$ 1,070,418
Sewer	1,583,552
Golf	1,508,920
Sportsplex	572,171

Total business-type activities \$ 4,735,061

### Note 5 - Capital Assets (Continued)

Component unit activities:

TIFA	\$ 10,838
DDA	7,099
Housing Commission	<u>2,081,611</u>

Total component unit activities	<u>\$ 2,099,548</u>
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### Note 6 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

Receivable Fund	Payable Fund	Amount
<b>Due to/from Other Funds</b>		
General Fund	Golf Courses Fund (major fund)	\$ 773,060
	Other nonmajor governmental funds	254,869
	Ecorse Creek Fund	<u>6,644</u>
	Total General Fund	1,034,573
Other nonmajor governmental funds	General Fund	998,918
	Other nonmajor governmental funds	<u>538,546</u>
	Total nonmajor governmental funds	1,537,464
TBA 2003 Project Fund	General Fund	4,824
Ecorse Creek	Water Fund (major fund)	152,151
Sewer Fund (major fund)	Water Fund (major fund)	1,771,414
	General Fund	84,210
	Ecorse Creek	<u>44</u>
	Total Sewer Fund	1,855,668

### Note 6 - Interfund Receivables, Payables, and Transfers (Continued)

Receivable Fund	Payable Fund	Amount
Water Fund (major fund)	General Fund	\$ 17,422
	Other nonmajor governmental funds	32,102
	Total Water Fund	49,524
	Total	<u>\$ 4,634,204</u>

These balances result from the time lag between the dates that goods and services are provided or reimbursable expenditures occur, transactions are recorded in the accounting system, and payments between funds are made.

Receivable Fund	Payable Fund	Amount
<b>Advances to/from Other Funds</b>		
General Fund	Golf Courses Fund	<u>\$ 1,200,000</u>

### Interfund Transfers

	Transfer Out			Total
	2003	Other		
General Fund	Building Authority Fund	Nonmajor Governmental Funds		
Transfer in - Other nonmajor governmental funds	\$ 310,000	\$ -	\$ 1,054,084	\$ 1,364,084

The transfer from the General Fund was to the Local Streets Fund and represents the use of unrestricted resources to finance that program. Remaining transfers were mainly between the City's two street funds to redistribute Act 51 revenue from the Major Streets to the Local Streets Fund, where the funds were then spent.

# City of Taylor, Michigan

## Notes to Financial Statements June 30, 2004

### Note 7 - Long-term Debt

The City issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the City. County contractual agreements and installment purchase agreements are also general obligations of the government.

Long-term obligation activity can be summarized as follows:

	Interest Rate Range	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Governmental Activities</b>						
Bonds and contractual obligations:						
1996 Michigan Transportation Fund - Debt Retirement - Amount of issue - \$3,000,000	4.85%-5.0%	\$ 1,715,000	\$ -	\$ 250,000	\$ 1,465,000	\$ 265,000
2000 Municipal Purchase Contract - Telephone System - Amount of issue - \$216,427	Various	60,187	-	60,187	-	-
2001 Certificates of Participation - Honeywell Project - Amount of issue - \$4,125,000	3.85%-5%	3,415,000	-	370,000	3,045,000	385,000
2001 Installment Purchase Agreement - Downriver Mutual Aid E911 - Amount of issue - \$7,250,000	6.45%	5,888,801	-	628,177	5,260,624	663,854
Taylor Building Authority Debt:						
1998 Public Facility Bonds - Villages of Taylor - Amount of issue - \$16,095,000	4.3%-5.0%	14,595,000	-	520,000	14,075,000	580,000
Building Authority Bonds - Series 2000 - Amount of issue - \$10,475,000	4.65%-5.125%	9,565,000	-	480,000	9,085,000	500,000
2003 Building Authority Refunding Bonds - Amount of issue - \$2,570,000	2.0%-3.0%	2,570,000	-	390,000	2,180,000	410,000
Building Authority Public Facilities Bonds - Series 2003 - Amount of issue - \$13,750,000	2.0%-5.0%	13,750,000	-	-	13,750,000	505,000
Road loan - State Infrastructure Bank (SIB) - Racho Road - Amount of issue - \$260,000	4.0%	168,143	-	25,206	142,937	26,233
2004 Building Authority Public Facilities Bonds - Amount of issue - \$1,250,000	2.0%-4.75%	-	1,250,000	-	1,250,000	-
Total governmental activities		<u>\$ 51,727,131</u>	<u>\$ 1,250,000</u>	<u>\$ 2,723,570</u>	<u>\$ 50,253,561</u>	<u>\$ 3,335,087</u>
<b>Business-type Activities</b>						
General obligation bonds:						
Building Authority Bonds - Series 2000 - Amount of issue - \$5,525,000	4.65%-5.125%	\$ 5,265,000	\$ -	\$ 270,000	\$ 4,995,000	\$ 285,000
E-Z - Go Textron Financial Lease - Amount of issue - \$477,981	5.50%	447,093	-	83,582	363,511	88,298
1994 Downriver Sewage Disposal System Bonds - Amount of issue - \$80,916,895	Various	67,619,690	-	3,449,050	64,170,640	3,478,848
Total business-type activities		<u>\$ 73,331,783</u>	<u>\$ -</u>	<u>\$ 3,802,632</u>	<u>\$ 69,529,151</u>	<u>\$ 3,852,146</u>

### Note 7 - Long-term Debt (Continued)

	Interest Rate Range	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Component Units</b>						
TIFA Bonds - 2000-A HUD Section 108 Loan - Senior Activities Center - Amount of issue - \$1,500,000	Various	\$ 1,260,000	\$ -	\$ 120,000	\$ 1,140,000	\$ 120,000
Tax Increment Bonds - Series 1993	5.7%	1,295,000	-	1,295,000	-	-
Installment mortgage loan	5.0%	600,000	-	300,000	300,000	300,000
Tax Increment Bonds - Series 1998 Refunding	4.4%-4.5%	14,945,000	-	1,590,000	13,355,000	1,660,000
Tax Increment Bonds - Series 2001	3.8%-5.0%	34,785,000	-	740,000	34,045,000	970,000
Total TIFA		52,885,000	-	4,045,000	48,840,000	3,050,000
DDA Bonds - Downtown Development Bond - Series 2002	3.0%-4.7%	2,445,000	-	75,000	2,370,000	80,000
Housing Commission - Bonds and mortgage payable	Various	27,820,490	-	629,868	27,190,622	617,541
Total component units		\$ 83,150,490	\$ -	\$ 4,749,868	\$ 78,400,622	\$ 3,747,541

### Component Unit Debt

The Housing Commission's debt represents the debt owed by its component unit, the TCDC. The debt represents \$24,865,000 of MSHDA bonds, a mortgage loan, and a construction loan payable. The debt is comprised mainly of Michigan State Housing Development Authority (MSHDA) Limited Obligation Multifamily Housing Revenue Bonds, Series 2003A (the "Bonds"). In 2002, the TCDC formed three single-member limited liability companies, of which the TCDC is the sole member. The Ponds of Taylor Limited Dividend Housing Association LLC (the "Ponds"), The Parks of Taylor Limited Dividend Housing Association LLC (the "Parks"), and the Courtyards of Taylor Limited Dividend Housing Association LLC (the "Courtyards") were formed with their sole assets to be those of each corresponding apartment complex. On this same date, the Parks, Ponds, and Courtyards entered into agreements to issue the MSHDA bonds and to obtain taxable supplemental real estate loans.

The Bonds have a tax-exempt variable interest rate that is determined weekly based on the remarketing agent's submitting the bonds to the market for bidding. During the audit period, the weekly interest rate fluctuated and averaged approximately 1.00 percent (APR). The interest on the bonds is due monthly, and they also have principal reserve (sinking fund) requirements that begin on the dates noted above. The interest rate on the taxable loans is fixed throughout the term. Their principal and interest payment is also paid monthly. The respective loans are secured by all of the assets of each respective LLC.

### Note 7 - Long-term Debt (Continued)

During the year ended June 30, 2004, the lender neglected to withhold principal reserve payments. During the year ending June 30, 2005, the TCDC will accelerate the principal reserve payments to compensate for the 2004 underfunding.

The fair value of the bonds and commercial loans payable is estimated based on the current rates offered to the TCDC for debt of the same remaining maturities. At June 30, 2004, the fair value of the bonds approximates the amounts recorded in the financial statements.

The TCDC has a revolving construction line of credit with a bank for \$3,000,000. The construction line of credit requires monthly interest payments at the bank's prime rate, which was 4 percent per annum at June 30, 2004. The note has a maturity date of October 1, 2004. The TCDC is allowed to take draws on the construction line based on delivery of certain amounts of fully executed purchase agreements for each building that remains to be converted to condominiums. The TCDC is required to make payments on the construction line when each condominium is sold. These payments are determined by the condominium type. This loan is secured by a mortgage on the property, security interest in all fixtures and equipment, and a lien on all of the TCDC's assets. The balance outstanding on this line of credit at June 30, 2004 was \$299,793.

Annual debt service requirements to maturity for the above bond and note obligations are as follows:

	Governmental Activities			Business-type Activities			Component Unit Activities		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2005	\$ 3,335,087	\$ 2,279,984	\$ 5,615,071	\$ 3,852,146	\$ 1,852,855	\$ 5,705,001	\$ 3,747,541	\$ 2,860,213	\$ 6,607,754
2006	3,569,442	2,133,600	5,703,042	4,140,625	1,743,383	5,884,008	3,331,799	2,707,881	6,039,680
2007	3,760,544	1,975,643	5,736,187	3,958,944	1,607,155	5,566,099	3,527,013	2,563,979	6,090,992
2008	3,976,953	1,806,704	5,783,657	4,066,780	1,533,859	5,600,639	3,969,013	2,403,149	6,372,162
2009	4,203,118	1,621,993	5,825,111	4,183,618	2,233,907	6,417,525	3,926,530	2,233,907	6,160,437
2010-2014	15,048,417	5,521,098	20,569,515	22,704,654	5,256,893	27,961,547	17,399,191	8,429,367	25,828,558
2015-2019	11,465,000	2,158,611	13,623,611	21,940,505	2,159,807	24,100,312	17,604,650	4,722,706	22,327,356
2020-2024	4,895,000	629,038	5,524,038	4,681,879	162,157	4,844,036	11,253,934	1,261,049	12,514,983
2025-2029	-	-	-	-	-	-	7,223,100	490,521	7,713,621
2030-2033	-	-	-	-	-	-	6,417,851	99,586	6,517,437
Total	\$ 50,253,561	\$ 18,126,671	\$ 68,380,232	\$ 69,529,151	\$ 16,550,016	\$ 86,079,167	\$ 78,400,622	\$ 27,772,358	\$ 106,172,980



### **Note 7 - Long-term Debt (Continued)**

In conjunction with the issuances of \$11,205,000, \$19,570,000, and \$36,000,000 of Tax Increment Financing Authority (TIFA) bonds series 1993, 1998, and 2001, respectively, the component unit is required to maintain debt service reserves in the amounts of \$1,115,507, \$1,335,500, and \$3,448,681, respectively. In order to cover the reserve requirement, the TIFA component unit has obtained insurance coverage totaling \$6,431,181 for this purpose. In addition to the reserves and in conjunction with the above debt issues, the City has agreed to certain covenants, including, but not limited to, restriction on amendments to the TIFA plan districts and continued compliance with the State of Michigan regulations and statutes affecting the TIFA bond indenture.

#### **Defeased Debt**

During the year ended June 30, 1999, the TIFA defeased certain bonds (TIFA series 1989A and 1991) related to the Tax Increment Financing Authority by placing the proceeds in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded bonds. The debt service on the original liability was being service by the TIFA. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the general purpose financial statements. At June 30, 2004, \$10,135,000, representing a portion of the TIFA's bonds outstanding, is considered defeased.

**No Commitment Debt** - Excluded from long-term debt are bonds issued under the Economic Development Corporation Act of 1974, as amended, which authorizes the formation of economic development corporations and their participation in economic development projects in the City. The revenue bonds issued are payable solely from the net revenue derived from the respective leases and are not a general obligation of the City. After these bonds are issued, all financial activity is taken over by the paying agent. The bonds and related lease contracts are not reflected in the City's financial statements. Information regarding the status of each bond issue, including possible default, must be obtained from the paying agent or other knowledgeable source.

### Note 8 - Restricted Assets

The balances of the restricted asset accounts are as follows:

	Governmental Activities	Business-type Activities	Component Units
Unspent bond proceeds and related interest	\$ 14,165,658	\$ -	\$ 699,221
Deposits held at Wayne County	-	11,466,790	-
Restricted deposits - Cash	-	-	190,269
Restricted deposits held by lender	-	-	2,402,972
Total restricted assets	<u>\$ 14,165,658</u>	<u>\$ 11,466,790</u>	<u>\$ 3,292,462</u>

### Note 9 - Risk Management

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The City has purchased commercial insurance for medical and property claims and for risk related to torts and errors and omissions and is uninsured for workers' compensation claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The City estimates the liability for workers' compensation claims that have been incurred through the end of the fiscal year, including both those claims that have been reported as well as those that have not yet been reported. Changes in the estimated liability for the past two fiscal years were as follows:

	2004	2003
Unpaid claims - Beginning of year	\$ 98,587	\$ 98,587
Incurred claims - Including claims incurred but not reported	(323,896)	377,925
Claim payments	<u>271,848</u>	<u>(377,925)</u>
Unpaid claims - End of year	<u>\$ 46,539</u>	<u>\$ 98,587</u>

### Note 10 - Defined Benefit Pension Plan

#### Plan Description

**Police and Fire Retirement System** - The Police and Fire Retirement System is a single-employer defined benefit pension plan that is administered by the City of Taylor, Michigan; this plan covers almost all police and fire employees of the City. The system provides retirement disability and death benefits to plan members and their beneficiaries. At June 30, 2003, the date of the most recent actuarial valuation, membership consisted of 181 retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them, and 164 current active employees. The plan does not issue a separate financial report.

**General Employees' Pension Plan** - The General Employees' Pension Plan is a single-employer defined benefit pension plan that is administered by the City of Taylor, Michigan; this plan covers all employees other than court and police and fire employees. The system provides retirement disability and death benefits to plan members and their beneficiaries. At December 31, 2003, the date of the most recent actuarial valuation, membership consisted of 210 retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them, and 197 current active employees. At December 31, 2003, the General Employees' Pension Plan had 9.5 percent of net assets available for benefits in annuities with one insurance company. The plan does not issue a separate financial report.

**Michigan Municipal Employees' Retirement System** - The City also participates in the Michigan Municipal Employees' Retirement System (MMERS), an agent multiple-employer defined benefit pension plan that covers all 23rd District Court employees of the City. The MMERS provides retirement, disability, and death benefits to plan members and their beneficiaries. The MMERS issues a publicly available financial report that includes financial statements and required supplementary information for the MMERS. That report may be obtained by writing to the MMERS at 1134 Municipal Way, Lansing, MI 48917.

#### Funding Policy

**Police and Fire Retirement System, General Employees' Pension Plan, and Michigan Municipal Employees' Retirement System** - Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to the plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Please refer to Note 1 for further significant accounting policies.

### **Note 10 - Defined Benefit Pension Plan (Continued)**

The obligation to contribute to and maintain the system for these employees was established by negotiation with the City's collective bargaining units and requires a contribution from the employees of 5 percent. The funding policy provides for periodic employer contributions at actuarially determined rates.

#### **Annual Pension Cost**

**Police and Fire Retirement System** - For the year ended June 30, 2004, the City's contribution of approximately \$2,000,000 equaled the annual pension cost. The annual required contribution was determined as part of an actuarial valuation at June 30, 2002 using the entry age actuarial cost method. Significant actuarial assumptions used include (a) a rate of return on the investment of present and future assets of 7.6 percent per year compounded annually, of which 5 percent is attributable to inflation, (b) projected salary increases of 5.0 percent per year compounded annually, attributable to inflation, (c) additional projected salary increases ranging from 0 percent to 3 percent per year, attributable to seniority/merit, and (d) no postretirement benefit increases. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on a closed basis. The remaining amortization period is 10-25 years.

**General Employees' Pension Plan** - For the year ended December 31, 2003, the City's annual pension cost of approximately \$641,000 for the plan was equal to the City's required contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2001 using the aggregate cost method. Significant actuarial assumptions used include (a) a rate of return on the investment of present and future assets of 7.25 percent per year compounded annually, of which 3.5 percent is attributable to inflation, (b) projected salary increases of 3.5 percent per year compounded annually, attributable to inflation, and (c) no postretirement benefit increases. The actuarial value of assets was determined based on market value.

### Note 10 - Defined Benefit Pension Plan (Continued)

**Michigan Municipal Employees' Retirement System** - For the year ended June 30, 2004, the City's actual pension cost of \$32,151 was equal to the City's required contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2001 using the entry age normal cost method. Significant actuarial assumptions used include (a) a rate of return on the investment of present and future assets of 8.0 percent per year compounded annually, 4.5 percent attributable to inflation (b) projected salary increases of 4.5 percent per year compounded annually, attributable to inflation, (c) additional projected salary increases ranging from 0 percent to 4.16 percent per year, attributable to seniority/merit, and (d) no postretirement benefit increases. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on a closed basis. The remaining amortization period is 30 years.

#### Reserves

As of June 30, 2004, the plans' legally required reserves have been fully funded as follows:

Police and Fire Retirement System:

Reserve for employees' contributions	\$ 5,685,876
Reserve for retired benefit payments	84,308,314

General Employees' Pension Plan - Reserve for employees' contributions

5,689,063

Three-year trend information for the Police and Fire Retirement System is as follows:

	Fiscal Year Ended June 30		
	2004	2003	2002
Annual pension cost (APC)	\$ 2,000,000	\$ 1,259,000	\$ 792,000
Percentage of APC contributed	100.00%	100.00%	100.00%

### Note 10 - Defined Benefit Pension Plan (Continued)

Three-year trend information for the Michigan Municipal Employees' Retirement System is as follows:

	Fiscal Year Ended June 30		
	2004	2003	2002
Annual pension cost (APC)	\$ 32,151	\$ 11,166	\$ 7,716
Percentage of APC contributed	100.00%	100.00%	100.00%
	Calendar Year Ended December 31		
	2003	2002	2001
Actuarial value of assets	\$ 1,535,501	\$ 1,397,830	\$ 1,292,060
Actuarial accrued liability (AAL)			
(entry age)	\$ 1,786,784	\$ 1,515,175	\$ 1,244,053
Unfunded AAL (UAAL)	\$ 251,283	\$ 117,345	\$ (48,007)
Funded ratio	85.9%	92.3%	103.9%
Covered payroll	\$ 733,427	\$ 772,725	\$ 652,589
UAAL as a percentage of covered payroll	34.26%	15.19%	-%

Three-year trend information for the General Employees' Pension Plan is as follows:

	Year Ended December 31		
	2003	2002	2001
Annual pension cost (APC)	\$ 641,358	\$ -	\$ -
Percentage of APC contributed	100.00%	-%	-%

### **Note 11 - Defined Contribution Plan**

The City provides benefits to recently hired employees that are not eligible for the defined benefit plans through a defined contribution plan established July 1, 2003. In a defined contribution plan, benefits depend solely on amounts contributed to the plan, plus investment earnings. Employees are eligible to participate from the date of hire. As established by various collective bargaining agreements, the employees are permitted to contribute up to 4 percent of their pre-tax earnings, and up to 25 percent of their after-tax earnings. The City contributes between 25 percent and 200 percent of no greater than 4 percent of the employee contributions as an employer match. The amounts in the employee's account, including earnings and employer match, are fully vested after five years of service.

The City's total payroll during the current year was \$24,619,663. The current year contribution was calculated based on covered payroll of \$498,527, resulting in an employer contribution of \$16,179 and employee contributions of \$18,558.

### **Note 12 - Subsequent Events**

Subsequent to year end, the City issued \$1,220,000 of Michigan Transportation Fund Refunding Bonds. The bonds require payments ranging from \$290,000 to \$320,000 per year through 2008 at interest rates ranging from 3.00 percent to 3.50 percent.

Subsequent to year end, the City issued \$2,600,000 of Limited Tax General Obligation Bonds. The bonds require payments ranging from \$140,000 to \$200,000 per year through 2015 at interest rates ranging from 3.00 percent to 4.20 percent.

### **Note 13 - Contingent Liabilities**

The City has been named as a defendant in numerous claims and lawsuits requesting damages of various amounts, the majority of which do not state a specific maximum. The various proceedings have not yet progressed to the point where a legal opinion can be reached as to the ultimate liability, if any, after consideration of available insurance, where applicable, that may result from the resolution of these matters. The City has not recorded an estimate of this liability at June 30, 2004.

### **Note 13 - Contingent Liabilities (Continued)**

The City had been named as a defendant in a lawsuit alleging violations of the Clean Water Act occurring in the Downriver Sewage Treatment System. Several other communities, including Wayne County, were also named as defendants. Under terms of a consent decree, the communities will be required to undertake construction projects to expand the capacity of the system and eliminate any violations of the Clean Water Act. The estimated total cost of the project is approximately \$283,000,000, with the City's share estimated to be \$82,000,000, which is to be financed over 23 years through the sale of a series of county bonds and State Revolving Fund financing. Pursuant to the order of the U.S. District Court, the City will be entitled to judgment levy the amount necessary to pay the bond principal and interest amount. To date, approximately \$32,500,000 has been collected through the property tax levy for debt payments. As of June 30, 2004, the City has recorded approximately \$64,000,000 in remaining debt outstanding related to the required projects.

### **Note 14 - Other Postemployment Benefits**

The City provides health care benefits to all full-time employees upon retirement, in accordance with labor contracts. Currently, 374 retirees are eligible, including 29 Water and Sewer Commission employees. The City includes pre-Medicare retirees and their dependents in its insured health care plan, with no contribution required by the participant. The City purchases Medicare supplemental insurance for retirees eligible for Medicare. Expenditures for postemployment health care benefits are recognized as the insurance premiums become due; during the year, this amounted to approximately \$2,927,000 paid out of the General Fund, including approximately \$256,000 for Water and Sewer Commission retirees, which was reimbursed to the General Fund out of that Enterprise Fund.

**Upcoming Reporting Change** - The Governmental Accounting Standards Board has recently released Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year ending June 30, 2009.



### Note 15 - Use Agreement

The TCDC and HUD entered into a use agreement that contains restrictions governing the operations of the Villages of Taylor. The use agreement requires the TCDC to make certain renovations specified in the Application for Transfer of Physical Assets submitted to HUD on March 12, 1998, maintain a replacement reserve with its mortgagor, relocate tenants as agreed, and to rent 77 percent of the project's units in accordance with affordability restrictions until September 1, 2012. In addition, the use agreement contains restrictions on the amount of rental charges and distributions.

The use agreement requires allocation of any distribution of income from operations or upon the sale of individual units as follows:

- Repayment of the National City Bank mortgage loan
- Repayment of the City's equity investment of \$17,633,330 plus 6 percent interest compounded annually, which accumulated to \$24,910,960 at June 30, 2004
- Repayment of HUD's equity investment of \$16,276,340 plus interest at 6 percent compounded annually. At June 30, 2004, this amount totaled \$22,979,391.
- Any remaining distribution to the City to fund programs that benefit low- and moderate-income residents

If the distributions are the result of a sale or refinancing of the project or a portion of the project, then the distribution first repays the mortgage, next equally pays the City's and HUD's equity investments, and finally pays the City for programs that benefit low- and moderate-income residents.

## **Required Supplemental Information**

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# City of Taylor, Michigan

## Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2004

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
<b>Fund Balance - Beginning of year</b>	\$ 4,912,239	\$ 4,232,809	\$ 4,232,809	\$ -
<b>Revenue</b>				
Property taxes	24,209,750	24,422,750	24,382,855	(39,895)
Federal sources	158,000	508,469	298,971	(209,498)
State sources	1,053,500	670,737	512,466	(158,271)
State-shared revenue	8,890,000	8,200,000	8,223,220	23,220
Fees and permits	718,000	693,000	737,283	44,283
Fines and forfeitures	3,166,000	3,870,000	4,036,088	166,088
Charges for services	2,787,800	2,906,200	3,004,897	98,697
Interest income and rents	600,000	526,800	537,200	10,400
Other	8,672,250	9,887,931	10,204,239	316,308
Transfer from other funds*	885,195	480,630	471,087	(9,543)
Total revenue	51,140,495	52,166,517	52,408,306	241,789
<b>Expenditures</b>				
General government	7,937,400	7,631,335	7,457,811	173,524
Public safety	15,375,335	16,153,616	15,789,080	364,536
Public works	14,095,960	14,127,487	13,215,972	911,515
Recreation and culture	3,242,100	3,408,004	3,122,351	285,653
General administration	177,000	656,600	636,033	20,567
Employee benefits	10,249,300	9,968,607	9,703,635	264,972
Debt service	63,400	582,700	582,640	60
Operating transfers out	-	-	310,000	(310,000)
Total expenditures	51,140,495	52,528,349	50,817,522	1,710,827
<b>Fund Balance - End of year</b>	<b>\$ 4,912,239</b>	<b>\$ 3,870,977</b>	<b>\$ 5,823,593</b>	<b>\$ 1,952,616</b>

\* This transfer is included in other revenue in the governmental funds statement of revenue, expenditures, and changes in fund balances for the year ended June 30, 2003, as they represent transfers in from the TIFA Fund.

# City of Taylor, Michigan

## Required Supplemental Information Pension Systems Schedule of Funding Progress June 30, 2004 (dollar amounts in millions)

The schedule of funding progress is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability		Underfunded AAL (UAAL) (b-a)	Funded Ratio (Percent) (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll
		(AAL) - Entry Age (b)					
Police and Fire Retirement System							
06/30/97	\$ 80.6	\$ 77.1	\$ (3.5)	104.5	\$ 8.5	-	
06/30/98	90.2	80.2	(10.0)	112.5	8.6	-	
06/30/99	100.5	95.7	(4.8)	105.0	9.7	-	
06/30/00	107.0	100.5	(6.5)	106.5	9.1	-	
06/30/01	109.9	106.8	(3.1)	102.9	9.6	-	
06/30/02	108.0	110.5	2.5	97.7	10.6	23.6	
06/30/03	104.0	113.0	9.0	92.0	10.6	85.0	

Note: The General Employees' Pension Plan is using the aggregate cost method. Schedules of funding progress and employer contributions are not required under this method.

# City of Taylor, Michigan

## Required Supplemental Information Schedule of Employer Contributions June 30, 2004

### Police and Fire Retirement System

Year Ended June 30	Annual Required Contribution	Percentage Contributed
1998	\$ 826,202	100
1999	871,027	100
2000	340,256	100
2001	812,963	100
2002	579,042	100
2003	1,258,709	100
2004	2,000,194	100

The information presented above was determined as part of the actuarial valuations at the dates indicated. Additional information as of June 30, 2003 (Police and Fire Retirement System) and December 31, 2003 (General Employees' Pension Plan), the latest actuarial valuation dates, follows:

	Police and Fire Retirement System	General Employees' Pension Plan
Actuarial cost method	Individual entry age	Aggregate
Amortization method	Level percent, closed	Level dollar, closed
Remaining amortization period	10-25 years	14 years
Asset valuation method	4-year smoothed market	5-year smoothed market
Actuarial assumptions:		
Investment rate of return*	7.60%	7.25%
Projected salary increases*	5.00%-8.00%	3.5%
*Includes inflation at	5.00%	3.5%
Cost of living adjustments	None	None

## **Other Supplemental Information**

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# City of Taylor, Michigan

	Special Revenue Funds							
	Major Streets	Local Streets	Police Forfeiture	Community Development Block Grant	Building Department	1996 Voted Levy	DARE/GREAT	Local Law Enforcement Block Grant
<b>Assets</b>								
Cash and investments	\$ 1,101,846	\$ 11,282	\$ 1,457,063	\$ -	\$ 11,255	\$ 130,493	\$ 48,599	\$ -
Accounts receivable - Special assessments	-	10,781	-	-	-	-	-	-
Due from other governmental units	519,174	183,363	-	45,852	-	-	-	-
Due from other funds	-	82,120	-	-	-	-	-	-
Prepaid expenses	-	-	18,000	-	-	-	-	-
Restricted assets	-	-	-	-	-	-	-	-
Total assets	<u>\$ 1,621,020</u>	<u>\$ 287,546</u>	<u>\$ 1,475,063</u>	<u>\$ 45,852</u>	<u>\$ 11,255</u>	<u>\$ 130,493</u>	<u>\$ 48,599</u>	<u>\$ -</u>
<b>Liabilities and Fund Balances</b>								
<b>Liabilities</b>								
Accounts payable	\$ 94,280	\$ 1,768	\$ 1,476	\$ 35,618	\$ 5,392	\$ 1,935	\$ -	\$ -
Deferred revenue	-	10,781	-	-	-	-	46,600	-
Due to other funds	489,105	183,106	64	10,234	5,863	128,558	1,999	-
Accrued and other liabilities	-	-	-	-	-	-	-	-
Total liabilities	583,385	195,655	1,540	45,852	11,255	130,493	48,599	-
<b>Fund Balances</b>								
Reserved for construction - Unspent bond proceeds	-	-	-	-	-	-	-	-
Unreserved	1,037,635	91,891	1,473,523	-	-	-	-	-
Total fund balances	1,037,635	91,891	1,473,523	-	-	-	-	-
Total liabilities and fund balances	<u>\$ 1,621,020</u>	<u>\$ 287,546</u>	<u>\$ 1,475,063</u>	<u>\$ 45,852</u>	<u>\$ 11,255</u>	<u>\$ 130,493</u>	<u>\$ 48,599</u>	<u>\$ -</u>

**Other Supplemental Information  
Combining Balance Sheet  
Nonmajor Governmental Funds  
June 30, 2004**

Debt Service Funds				Capital Projects Fund	Total Nonmajor Governmental Funds
General Obligation Debt	Taylor Building Authority Debt	1996 Michigan Transportation Fund Bond	DMA/ 911 Debt	TBA Construction	
\$ 200,923	\$ 438,643	\$ 10,309	\$ 412,515	\$ -	\$ 3,822,928
-	-	-	-	-	10,781
-	-	-	-	-	748,389
-	1,126,766	328,578	-	-	1,537,464
-	-	-	-	-	18,000
-	-	-	-	3,699,575	3,699,575
<b>\$ 200,923</b>	<b>\$ 1,565,409</b>	<b>\$ 338,887</b>	<b>\$ 412,515</b>	<b>\$ 3,699,575</b>	<b>\$ 9,837,137</b>
\$ -	\$ -	\$ -	\$ -	\$ 884,480	\$ 1,024,949
-	-	-	-	-	57,381
6,256	-	313	-	19	825,517
-	-	-	-	101,489	101,489
6,256	-	313	-	985,988	2,009,336
-	-	-	-	2,713,587	2,713,587
194,667	1,565,409	338,574	412,515	-	5,114,214
194,667	1,565,409	338,574	412,515	2,713,587	7,827,801
<b>\$ 200,923</b>	<b>\$ 1,565,409</b>	<b>\$ 338,887</b>	<b>\$ 412,515</b>	<b>\$ 3,699,575</b>	<b>\$ 9,837,137</b>



# City of Taylor, Michigan

	Special Revenue Funds							
	Major Streets	Local Streets	Police Forfeiture	Community Development Block Grant	Building Department	1996 Voted Levy	DARE / GREAT	Local Law Enforcement Block Grant
<b>Revenues</b>								
Property taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,427,849	\$ -	\$ -
Licenses and permits	-	-	-	-	1,355,517	-	-	-
Federal sources	-	-	638,856	892,992	-	-	-	145,112
State sources	3,065,861	1,078,911	120,893	-	-	-	-	-
Interest and rent	5,052	774	9,573	-	653	5,341	304	727
DMA/911 revenue	-	-	-	-	-	-	-	-
Other	-	31,634	-	-	-	-	25,509	-
Total revenues	3,070,913	1,111,319	769,322	892,992	1,356,170	1,433,190	25,813	145,839
<b>Expenditures</b>								
Current:								
Public works and capital projects	619,596	1,943,702	-	-	1,356,170	-	-	-
Community development	-	-	-	892,992	-	-	-	-
Construction and development	400,722	81,136	-	-	-	6,811	-	-
Capital outlay and other	25,000	25,031	100,363	-	-	1,427,849	25,813	152,553
Debt service	32,056	-	-	-	-	-	-	-
Total expenditures	1,077,374	2,049,869	100,363	892,992	1,356,170	1,434,660	25,813	152,553
<b>Excess of Revenues Over (Under) Expenditures</b>	1,993,539	(938,550)	668,959	-	-	(1,470)	-	(6,714)
<b>Other Financing Sources (Uses)</b>								
Operating transfers in	-	1,028,792	-	-	-	-	-	6,714
Operating transfers out	(1,047,370)	-	(6,714)	-	-	-	-	-
Total other financing sources (uses)	(1,047,370)	1,028,792	(6,714)	-	-	-	-	6,714
<b>Change in Fund Balance</b>	946,169	90,242	662,245	-	-	(1,470)	-	-
<b>Fund Balances - Beginning of year</b>	91,466	1,649	811,278	-	-	1,470	-	-
<b>Fund Balances - End of year</b>	<b>\$ 1,037,635</b>	<b>\$ 91,891</b>	<b>\$ 1,473,523</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

**Other Supplemental Information**  
**Combining Statement of Revenue, Expenditures, and**  
**Changes in Fund Balances - Nonmajor Governmental Funds**  
**Year Ended June 30, 2004**

Debt Service Funds				Capital Projects Fund	
General Obligation Debt	Taylor Building Authority Debt	1996 Michigan Transportation Fund Bond	DMA/ 911 Debt	TBA Construction	Total Nonmajor Governmental Funds
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,427,849
-	-	-	-	-	1,355,517
-	-	-	-	-	1,676,960
-	-	-	-	-	4,265,665
1,161	3,693,642	460	1,495	64,423	3,783,605
-	-	-	1,167,173	-	1,167,173
-	-	-	-	-	57,143
1,161	3,693,642	460	1,168,668	64,423	13,733,912
-	-	-	-	1,614,985	5,534,453
-	-	-	-	-	892,992
-	-	-	-	-	488,669
-	-	-	-	-	1,756,609
7,256	3,588,282	329,203	989,721	-	4,946,518
7,256	3,588,282	329,203	989,721	1,614,985	13,619,241
(6,095)	105,360	(328,743)	178,947	(1,550,562)	114,671
-	-	328,578	-	-	1,364,084
-	-	-	-	-	(1,054,084)
-	-	328,578	-	-	310,000
(6,095)	105,360	(165)	178,947	(1,550,562)	424,671
200,762	1,460,049	338,739	233,568	4,264,149	7,403,130
<b>\$ 194,667</b>	<b>\$ 1,565,409</b>	<b>\$ 338,574</b>	<b>\$ 412,515</b>	<b>\$ 2,713,587</b>	<b>\$ 7,827,801</b>

# City of Taylor, Michigan

## Other Supplemental Information Combining Statement of Net Assets Fiduciary Funds June 30, 2004

	Trust Funds			Agency Funds		
	Pension and Other Retirement Benefit Funds					
	General		Total	23rd District		Total
	Police and Fire Retirement System	Employees' Pension Plan*		Tax Receiving	Court	
<b>Assets</b>						
Cash and equivalents	\$ 500	\$ 2,471,329	\$ 2,471,829	\$ 1,966,659	\$ 66,366	\$ 2,033,025
Investments:						
Corporate bonds	13,917,431	6,052,251	19,969,682	-	-	-
U.S. government securities	25,164,969	8,602,442	33,767,411	-	-	-
Common and preferred stock	36,339,969	26,689,843	63,029,812	-	-	-
Money market	2,746,087	280,379	3,026,466	-	248,745	248,745
Annuity contracts	-	4,654,407	4,654,407	-	-	-
Mutual funds	17,059,827	-	17,059,827	-	-	-
Due from other governmental units	-	-	-	65,542	-	65,542
Accrued interest	570,347	201,406	771,753	-	-	-
<b>Total assets</b>	<b>95,799,130</b>	<b>48,952,057</b>	<b>144,751,187</b>	<b>\$ 2,032,201</b>	<b>\$ 315,111</b>	<b>\$ 2,347,312</b>
<b>Liabilities</b>						
Accounts payable	-	-	-	\$ 26	-	\$ 26
Due to other governmental units	-	-	-	1,988,027	203,554	2,191,581
Cash bonds and deposits	-	-	-	-	111,557	111,557
Tax collections distributable	-	-	-	44,148	-	44,148
<b>Total liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>\$ 2,032,201</b>	<b>\$ 315,111</b>	<b>\$ 2,347,312</b>
<b>Net Assets - Held in trust for pension and other employee benefits</b>	<b>\$ 95,799,130</b>	<b>\$ 48,952,057</b>	<b>\$ 144,751,187</b>			

\* Balances are as of December 31, 2003

# City of Taylor, Michigan

## Other Supplemental Information Combining Statement of Changes in Net Assets Fiduciary Funds Year Ended June 30, 2004

	Police and Fire Retirement System	General Employees' Pension Plan*	Total
<b>Additions</b>			
Investment income:			
Interest and dividends	\$ 2,798,645	\$ 1,531,144	\$ 4,329,789
Net increase in fair value of investments	6,485,787	6,051,850	12,537,637
Less investment expenses	<u>(164,032)</u>	<u>(228,274)</u>	<u>(392,306)</u>
Net investment income	9,120,400	7,354,720	16,475,120
Contributions:			
Employer	2,000,194	641,358	2,641,552
Employee	<u>619,822</u>	<u>540,642</u>	<u>1,160,464</u>
Total contributions	<u>2,620,016</u>	<u>1,182,000</u>	<u>3,802,016</u>
Total additions - Net of investment expenses	11,740,416	8,536,720	20,277,136
<b>Deductions</b>			
General and administrative	29,733	126,806	156,539
Benefit payments	<u>7,701,044</u>	<u>4,359,096</u>	<u>12,060,140</u>
Total deductions	<u>7,730,777</u>	<u>4,485,902</u>	<u>12,216,679</u>
<b>Net Increase in Net Assets</b>	4,009,639	4,050,818	8,060,457
<b>Net Assets Held in Trust for Pension and Other Employee Benefits</b>			
Beginning of year	<u>91,789,491</u>	<u>44,901,239</u>	<u>136,690,730</u>
End of year	<u><b>\$ 95,799,130</b></u>	<u><b>\$ 48,952,057</b></u>	<u><b>\$ 144,751,187</b></u>

\* Balances are as of December 31, 2003

# City of Taylor, Michigan

## Other Supplemental Information Combining Statement of Net Assets Component Unit - Housing Commission Year Ended June 30, 2004

	Housing Commission*	Taylor Community Development Corporation*	Total
<b>Assets</b>			
Cash and cash equivalents	\$ 328,231	\$ 752,798	\$ 1,081,029
Due from other governmental units	88,814	282,109	370,923
Accounts receivable	-	380,665	380,665
Deferred charges	-	2,288,585	2,288,585
Prepaid expenses and other assets	21,914	690,903	712,817
Restricted assets	-	2,593,241	2,593,241
Capital assets	2,247,342	31,041,548	33,288,890
Total assets	2,686,301	38,029,849	40,716,150
<b>Liabilities</b>			
Accounts payable	-	772,343	772,343
Due to other governmental units	390	-	390
Tenant security deposits	23,958	-	23,958
Accrued liabilities and other	17,014	271,410	288,424
Long-term debt	-	27,190,622	27,190,622
Total liabilities	41,362	28,234,375	28,275,737
<b>Net Assets</b>			
Invested in capital assets - Net of related debt	2,247,342	6,452,929	8,700,271
Restricted	-	2,593,241	2,593,241
Unrestricted	397,597	749,304	1,146,901
Total net assets	<u>\$ 2,644,939</u>	<u>\$ 9,795,474</u>	<u>\$ 12,440,413</u>

\* Balances are as of March 31, 2004 for the Housing Commission and as of June 30, 2004 for the Taylor Community Development Corp., its component unit.

# City of Taylor, Michigan

## Other Supplemental Information Combining Statement of Changes in Net Assets Component Unit - Housing Commission Year Ended June 30, 2004

	Housing Commission*	Taylor Community Development Corporation*	Total
<b>Revenue</b>			
Rental income	\$ 275,629	\$ 6,283,216	\$ 6,558,845
Other income	<u>2,905,619</u>	<u>4,163,565</u>	<u>7,069,184</u>
Total revenue	3,181,248	10,446,781	13,628,029
<b>Expenditures</b>			
General administration	276,235	2,032,102	2,308,337
Housing assistance payments	2,528,751	-	2,528,751
Utilities	89,729	1,544,776	1,634,505
Operation and maintenance	198,383	3,427,153	3,625,536
Depreciation and amortization	133,885	1,947,726	2,081,611
Other	<u>113,481</u>	<u>965,025</u>	<u>1,078,506</u>
Total expenditures	<u>3,340,464</u>	<u>9,916,782</u>	<u>13,257,246</u>
<b>Operating Income (Loss)</b>	(159,216)	529,999	370,783
<b>Nonoperating Revenue (Expenses)</b>			
Other nonoperating income	6,040	545,475	551,515
Loss on sale of property	-	(641,495)	(641,495)
Interest income	3,066	16,647	19,713
Interest expense	<u>-</u>	<u>(769,462)</u>	<u>(769,462)</u>
Total nonoperating revenue (expenses)	<u>9,106</u>	<u>(848,835)</u>	<u>(839,729)</u>
<b>Net Loss</b>	(150,110)	(318,836)	(468,946)
<b>Net Assets - Beginning of year</b>	<u>2,795,049</u>	<u>10,114,310</u>	<u>12,909,359</u>
<b>Net Assets - End of year</b>	<u><u>\$ 2,644,939</u></u>	<u><u>\$ 9,795,474</u></u>	<u><u>\$ 12,440,413</u></u>

\* Balances are as of March 31, 2004 for the Housing Commission and as of June 30, 2004 for the Taylor Community Development Corp., its component unit.

# **City of Taylor, Michigan**

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**Federal Awards  
Supplemental Information  
June 30, 2004**

# City of Taylor, Michigan

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## Independent Auditor's Report

To the Honorable Mayor and  
Members of the City Council  
City of Taylor, Michigan

We have audited the basic financial statements of the City of Taylor, Michigan for the year ended June 30, 2004 and have issued our report thereon dated December 7, 2004. Those basic financial statements are the responsibility of the management of the City of Taylor, Michigan. Our responsibility was to express an opinion on those basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Our audit was made for the purpose of forming an opinion on the basic financial statements of the City of Taylor, Michigan taken as a whole. The accompanying schedule of expenditures of federal awards and reconciliation of basic financial statements federal revenue with schedule of expenditures of federal awards are presented for the purpose of additional analysis and are not a required part of the basic financial statements. The information in these schedules has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Plante & Moran, PLLC*

December 7, 2004

## Report Letter on Compliance with Laws and Regulations and Internal Control - Basic Financial Statements

To the Honorable Mayor and  
Members of the City Council  
City of Taylor, Michigan

We have audited the financial statements of the City of Taylor, Michigan as of and for the year ended June 30, 2004 and have issued our report thereon dated December 7, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### **Compliance**

As part of obtaining reasonable assurance about whether the City of Taylor, Michigan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

### **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the City of Taylor, Michigan's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

To the Honorable Mayor and  
Members of the City Council  
City of Taylor, Michigan

This report is intended solely for the information and use of management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Plante & Moran, PLLC*

December 7, 2004

Report Letter on Compliance with Laws and Regulations and  
Internal Control - Major Federal Awards

To the Honorable Mayor and  
Members of the City Council  
City of Taylor, Michigan

**Compliance**

We have audited the compliance of the City of Taylor, Michigan with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to its major federal program for the year ended June 30, 2004. The major federal program of the City of Taylor, Michigan is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of the City of Taylor, Michigan's management. Our responsibility is to express an opinion on the City of Taylor, Michigan's compliance based on our audit.

The City of Taylor, Michigan's basic financial statements include the operations of the Taylor Housing Commission, which received federal awards that are not included in the attached schedule of expenditures of federal awards for the year ended June 30, 2004. Our audit, as described below, did not include the operations of the Taylor Housing Commission because the component unit engaged other auditors to perform an audit in accordance with OMB Circular A-133.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Taylor, Michigan's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of Taylor, Michigan's compliance with those requirements.

To the Honorable Mayor and  
Members of the City Council  
City of Taylor, Michigan

In our opinion, the City of Taylor, Michigan complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2004.

### **Internal Control Over Compliance**

The management of the City of Taylor, Michigan is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City of Taylor, Michigan's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Plante & Moran, PLLC*

December 7, 2004

# City of Taylor, Michigan

## Schedule of Expenditures of Federal Awards Year Ended June 30, 2004

Federal Agency/Pass-through Agency/Program Title	CFDA Number	Pass-through Entity Project/ Grant Number	Award Amount	Federal Expenditures
U.S. Department of Housing and Urban Development - Direct Program - Community Development Block Grant - Entitlement Grant:				
Program year 2004 - B04-MC-26-0015	14.218	NA	\$ 620,000	\$ -
Program year 2003 - B03-MC-26-0015	14.218	NA	640,000	229,496
Program year 2002 - B02-MC-26-0015	14.218	NA	772,000	<u>663,497</u>
Total U.S. Department of Housing and Urban Development				892,993
U.S. Department of Justice:				
Passed through Taylor School District - Drug-free Schools and Communities Act of 1986:				
TTOP JAIBG - 4/1/04-3/31/05	16.540	04-82002	21,526	3,975
TTOP JAIBG - 4/1/03-3/31/04	16.540	03-82002	21,526	<u>14,514</u>
Total passed through Taylor School District				18,489
Passed through the State of Michigan - Office of Criminal Justice - DRANO Enhancement Grant:				
State Police pass-through grant - 10/1/03-9/30/04	16.579	70978-3-03-B	17,017	12,750
State Police pass-through grant - 10/1/02-9/30/03	16.579	70439-9K02	17,017	<u>4,254</u>
Total Office of Criminal Justice - DRANO Enhancement Grant				17,004
Bureau of Justice Assistance - Local Law Enforcement Block Grant:				
2002 LB-BX 0482 #7	16.592	NA	78,785	75,802
2003 LB-BX 2347 #8	16.592	NA	60,425	<u>60,425</u>
Total Bureau of Justice Assistance - Local Law Enforcement Block Grant				136,227
Bureau of Justice Assistance - Passed through Wayne County:				
STOP - Violence Against Women 10/01/02-9/30/03	16.588	DV97820031-I	39,055	2,492
STOP - Violence Against Women 10/01/03-9/30/04	16.588	DV97820031-I	40,942	<u>36,900</u>
Total Bureau of Justice Assistance - Passed through Wayne County				39,392
Bureau of Justice Assistance - C.O.P.S. in Schools Grant - 2001 SH-WX-0596	16.710	NA	125,000	29,024
Bureau of Justice Assistance - C.O.P.S. via DCC/DMA E911 System Phase I & II	16.710	NA	141,603	16,899

# City of Taylor, Michigan

## Schedule of Expenditures of Federal Awards (Continued) Year Ended June 30, 2004

Federal Agency/Pass-through Agency/Program Title	CFDA Number	Pass-through Entity Project/ Grant Number	Award Amount	Federal Expenditures
U.S. Department of Justice (Continued):				
Bureau of Justice Assistance:				
Bulletproof Vest Partners 2003	16.607	NA	\$ 9,791	\$ 7,808
Bulletproof Vest Partners 2004	16.607	NA	12,825	<u>1,144</u>
Total Bureau of Justice Assistance - Bulletproof Vest Partners				<u>8,952</u>
Total Bureau of Justice Assistance				230,494
Federal Equitable Sharing Program - Justice	16.Unknown	NA	-	<u>64,595</u>
Total U.S. Department of Justice				330,582
U.S. Department of Treasury:				
Federal Equitable Sharing Program - Treasury	16.Unknown	NA	-	40,874
U.S. Custom Service Outbound Currency Task Force	16.Unknown	NA	-	<u>12,542</u>
Total U.S. Department of Treasury				53,416
U.S. Department of Transportation - Federal Aid to Urban Systems (FAUS) - Passed through Michigan Department of Transportation:				
Goddard Road Transportation Enhancement - 02-5000	20.205	STP-0282(332)	902,080	27,843
Michigan State Police - Office of Highway Safety Planning:				
OUIL & Seat Belt Grant 10/1/03-9/30/04	20.600	OP-04	27,783	27,223
OUIL & Seat Belt Grant 10/1/02-9/30/03	20.600	OP-03	39,149	<u>9,715</u>
Total U.S. Department of Transportation				64,781
Federal Highway Administration - Demonstration and Evaluation of Rational Speed Limits	20.600	DTFH61-03-H-00130	330,146	52,496
Federal Emergency Management Agency - Passed through Michigan State Police Emergency Management Division FEMA-3189-EM-163-79000	83.544	3189-EM	73,583	73,583
U.S. Department of Agriculture - Michigan Department of Natural Resources Emerald Ash Borer Tree Planting Grant	10.664	NA	36,108	-
U.S. Environmental Protection Agency - Brownfields Cleanup Revolving Loan Fund Pilot	66.811	NA	1,000,000	<u>-</u>
Total federal awards				<u>\$ 1,467,851</u>

# City of Taylor, Michigan

## **Reconciliation of Basic Financial Statements Federal Revenue with Schedule of Expenditures of Federal Awards Year Ended June 30, 2004**

Revenue from federal sources - As reported on financial statements within the governmental funds	\$ 1,975,931
Revenue from federal sources - As reported on financial statements within the Enterprise Funds	6,714
Revenue from federal sources - As reported within the discretely presented component units	507,006
Federal expenditures not received within the current period - Miscellaneous law enforcement grants	18,528
Federal revenue reported in the financial statements, not expended in the current period:	
LLEBG	(8,885)
MDOT Activity	(479,163)
Federal Forfeiture Justice Funds	(399,777)
Federal Forfeiture Treasury Funds	(133,610)
Miscellaneous law enforcement grants	<u>(18,893)</u>
Federal expenditures per the schedule of expenditures of federal awards	<b><u>\$ 1,467,851</u></b>



# City of Taylor, Michigan

## Notes to Schedule of Expenditures of Federal Awards Year Ended June 30, 2004

### Note 1 - Significant Accounting Policies

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of Taylor, Michigan (the "City") and is presented on the same basis of accounting as the basic financial statements. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

### Note 2 - Loans Outstanding

The City had the following loan balances outstanding at June 30, 2004. These loan balances are not included in the federal expenditures presented in the schedule of expenditures of federal awards.

Cluster/Program Title	CFDA Number	Amount Outstanding
Community Development Block Grant	14.218	\$ 1,140,000

### Note 3 - Subrecipient Awards

Of the federal expenditures presented in the schedule of expenditures of federal awards, federal awards were provided to subrecipients as follows:

Federal Program Title	CFDA Number	Amount Provided to Subrecipients
Community Development Block Grant	14.218	\$ 63,500

# City of Taylor, Michigan

## Schedule of Findings and Questioned Costs Year Ended June 30, 2004

### Section I - Summary of Auditor's Results

#### Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? \_\_\_\_\_ Yes   X   No
- Reportable condition(s) identified that are not considered to be material weaknesses? \_\_\_\_\_ Yes   X   None reported

Noncompliance material to financial statements noted? \_\_\_\_\_ Yes   X   No

#### Federal Awards

Internal control over major program(s):

- Material weakness(es) identified? \_\_\_\_\_ Yes   X   No
- Reportable condition(s) identified that are not considered to be material weaknesses? \_\_\_\_\_ Yes   X   None reported

Type of auditor's report issued on compliance for major program(s): Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? \_\_\_\_\_ Yes   X   No

Identification of major program(s):

CFDA Number(s)	Name of Federal Program or Cluster
----------------	------------------------------------

14.218	Community Development Block Grant
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Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee? \_\_\_\_\_ Yes   X   No

# **City of Taylor, Michigan**

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## **Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2004**

### **Section II - Financial Statement Audit Findings**

None

### **Section III - Federal Program Audit Findings**

None

**City of Taylor, Michigan  
Federal Awards Corrective Action Plan  
June 30, 2004**

Finding Number	Responsible Person	Management Views	Corrective Action	Anticipated Completion Date
Federal Programs Audit: 2003-1				
	Susan Miller-Anderson, Community Development Block Grant Director	Management agreed with the finding and implemented the recommendation	The Community Development program staff is now required to provide details of verification of the Davis-Bacon requirements by contractors to the City's Department of Budget and Finance prior to any payment being made to a contractor. Only upon verification of the details of on-site interviews and weekly payroll submissions and certifications are payments made to contractors required to comply with Davis-Bacon.	New policy was put in place effective December 2003



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December 7, 2004

Honorable Mayor and Members  
of the City Council  
City of Taylor  
23555 Goddard Road  
Taylor, MI 48180

Dear Mayor and Council Members:

We have recently completed our audit of the financial statements for the City of Taylor for the year ended June 30, 2004. As a result of our audit, we offer the following observations and comments for your consideration:

## **OVERVIEW OF THE CITY'S FINANCIAL CONDITION**

The General Fund fund balance at June 30, 2004 increased to approximately \$5,824,000 of which approximately \$1,695,000 has been reserved. The primary reasons responsible for the increase are the sale of City owned parcels and proactive cost control measures undertaken by the City. The unreserved portion of fund balance represents approximately 8 percent of 2004 expenditures, excluding transfers to other funds. In the coming years, the City will continue to face difficult local economic challenges as the State of Michigan manages through its fiscal crisis. In addition, along with the continued increases in recurring operating expenditures, health care costs and actuarial required pension contributions continue to increase dramatically. As you are well aware, more than ever, it is critical to maintain a sufficient level of fund balance to allow the City an opportunity to adjust to expected and unanticipated financial changes, such as you and many other communities are currently experiencing. An adequate level of fund balance positions the City to address negative financial changes without significantly disrupting the level of services provided to citizens or the City's ability to fund future obligations. We encourage the Mayor and Council to continue to actively monitor the financial position of the City to achieve budgeted results and plan for improving General Fund fund balance levels over an established future timeframe.

## **STATE SHARED REVENUE**

State shared revenue accounts for approximately 16% of the City's total General Fund revenue. The revenue sharing payments received in the City's 2004 fiscal decreased from the previous fiscal year by approximately \$926,000 or 10%. Because of slower than anticipated growth in the State's sales tax collections (the sole source of revenue sharing payments to local units of government) and the State's budget problems which have resulted in additional appropriation reductions to the revenue sharing line item in the State's budget, revenue sharing payments for the last several years have been much lower than originally anticipated.



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Although current sales tax revenue would support an increase to total state shared revenue payments, the State's budget situation remains troublesome at best. As you are probably aware, the Governor's budget for the State's 2004/2005 fiscal year contains a provision to not pay counties statutory revenue sharing (the counties' only source of revenue sharing). Instead, the counties will change their property tax levy date for their operating millage from December to July (beginning in 2005). A portion of the additional funds generated from the early property tax levy will be used by the counties over a multiple year period to replace statutory revenue sharing that will not be paid by the State. The plan calls for the return of statutory revenue sharing for the counties when their restricted monies from the early levy run out. A key part to this plan allows the State to hold revenue sharing payments to cities, villages and townships for the State's 2004/2005 fiscal year at the prior year levels. This plan was recently approved by the Michigan legislature and signed by the Governor.

It is generally acknowledged that the State's budget woes will continue for several more years. The Governor recently announced that another \$500 million shortfall exists for the State's 2005/2006 fiscal year budget (the State's 2005/2006 fiscal year budget will be introduced by the Governor in early 2005). Also, during October 2004, the Governor announced that her administration may introduce a significant tax restructuring proposal shortly. Specific details of the proposal have not been formally announced and the impact on significant revenue sources to local governments, such as personal property taxes and revenue sharing, is not known. As a result of the continuing uncertainty with the State's budget situation and other potential developments with changes to State's tax structure, we continue to urge the City to be extremely conservative in its estimation of state shared revenue as this line item in the State's budget remains vulnerable. We will continue to update the City/Village/Township as developments occur.

## PROPERTY TAXES

As you recall, Proposal A limits the growth in taxable value to the lesser of inflation or 5 percent. The inflation factor for this calculation is published by the State Tax Commission and is as follows:

2005	2.3%	1999	1.6%
2004	2.3%	1998	2.7%
2003	1.5%	1997	2.8%
2002	3.2%	1996	2.8%
2001	3.2%	1995	2.6%
2000	1.9%	1994	3.0%

The 2004 inflation factor, is being used for property taxes levied in the City's fiscal year ended June 30, 2005. Property taxes are the City's largest source of General Fund revenue. However, as indicated above, growth in existing property are significantly limited due to Proposal A. The City has been very cognizant of this inflation factor and the limit it imposes on the City's ability to increase revenue. The City has used this factor in its annual planning process and in contract negotiations. This factor should continue to be considered especially when the City is involved in any long-term financial planning.

The Headlee Amendment to the Michigan Constitution limits the amount of taxes that can be levied by the City. In general terms, if growth on the City's existing property tax base exceeds inflation for a particular year, the Headlee Amendment requires the City to "roll back" its property tax rate to inflation. Prior to the passage of Proposal A in 1994, during years when the growth on the City's existing property tax base was less than inflation, the Headlee Amendment allowed the City to "roll up" its property tax rate and recover from years when the property tax rate was "rolled back". However, subsequent to the passage of Proposal A, the City is no longer allowed to "roll up" its property tax rate in years when growth on its existing tax base is less than inflation. For the year ended June 30, 2004, the City's Headlee maximum property tax rate for its operating levy was 8.52 mills even though City Charter would allow the City to levy 9.5 mills for operations. Essentially, this limitation on property tax millages has effectively reduced the charter operating millage for 2003/2004 by approximately \$1.1 million. As indicated, due to the passage of Proposal A, the City cannot "roll up" to 9.5 mills, without a vote of the citizens to override the Headlee Amendment.

## **TRANSPORTATION MATTERS**

The Legislature recently approved HB 5319 which would earmark one-half of one cent of the state gasoline tax for the preservation, improvement or reconstruction of existing bridges. It is estimated that over the next 10 years that approximately a half billion dollars will be available to local governments for bridge needs. Presently, these monies are used primarily by the Michigan Department of Transportation for State bridges. The legislation creates a Local Bridge Authority to manage the monies as well as seven, five member, regional bridge councils. The new Authority would consist of six voting members appointed by the State Transportation Commission (three nominations by the County Road Association of Michigan and three by the Michigan Municipal League) and two non-voting members nominated by the Department of Transportation.

## **HEALTH CARE COSTS**

It is our understanding that the State of Michigan may be offering local governments the opportunity to participate in the State's prescription drug program. A presentation was made in September 2004 to introduce this program to local governments. While we have not evaluated the program, the City may want to consider this option as it evaluates and continues to try to manage its health care costs.



## **MUNICIPAL FINANCE ACT REVISIONS – REMINDER**

The Municipal Finance Act was amended several years ago. Communities are now required to submit a filing once a year with the Michigan Department of Treasury. The old ten day “exemption from prior approval” process has been eliminated and is replaced with this qualification process. This filing will serve as a pre-approval for future debt issues. The current filing is due within six months of the City’s year end (December 31, 2004) and is good for one year thereafter. The City must also consider the need to file a qualifying statement for each of its component units.

## **INTERNAL CONTROL CONSIDERATIONS**

During this year's audit, we, as your City's auditors, were required to adopt the Statement on Auditing Standards Number 99 (referred to as SAS 99) entitled *Consideration of Fraud in a Financial Statement Audit*. SAS 99 requires new procedures regarding the auditor's consideration of the possibility of fraud in a financial statement audit. This resulted in new and additional testing in the conduct of this year's engagement. As a result, several of the comments noted below directly result from the additional procedures applied through the implementation of SAS 99.

**Water Loss** – While reviewing water loss in current year, we noted water loss has been steadily increasing over the past several years. It is our understanding that the City has been analyzing the increases including potential reasons for the increases. The City should continue to analyze these losses on a contemporaneous basis to monitor accuracy of meter readings and prevent water breakages and other system leaks going undetected.

**Ticket Control – Police Department and District Court** - We have previously discussed ticket control procedures with representatives from public safety and the District Court. In addition, it is our understanding that in several years previous, procedures were initiated between the Court and Police Department whereby the ticket log books would be regularly reconciled between the two entities. We strongly encourage the Police Department and the Court to actively and timely employ these procedures to provide adequate controls such as the following:

- Supervisory approval of ticket sequence issuance when an officer takes a book of tickets from the store room.
- Reconciling the ticket activity log book maintained at the Police Department to the Court files
- Adequate and timely follow-up procedures to identify and account for all missing tickets

To assist in the coordination of these efforts, we understand the Police Department will be issuing tickets through a computer system, which will be linked to the Court’s computer system. The City is working on the implementation of this system over the next few years.

**General Employees Retirement System** – As mentioned in our prior year letter, the City, does not have in place a fully functioning retirement board to serve its General Employees Retirement System. Although a pension board does exist, its role is primarily limited to investment related matters. Therefore, the general employees retirement system currently has no procedures in place to formally approve the determination of applicable benefits or the calculation of new retirees' benefits. Neither this board nor the City approves the above determinations. However, we do understand that the H.R. Department at the City is now performing these calculations with assistance from the City actuary, Gabriel Roeder. Additionally, retirees' checks are not approved. We recommend that a review process for the benefit calculations be put in place to ensure the appropriate liability is recorded and create an formal approval process to verify the accuracy of benefit payments to retirees.

**Library Property Tax Levy** – We noted the library expenditures over the past two years have been less than the revenues generated from the tax levy. As these amounts are accounted for in the General Fund, any excess revenue over expenditures must be earmarked through fund balance reserves for future library costs. We understand the City currently has plans to spend these reserved funds for future library projects.

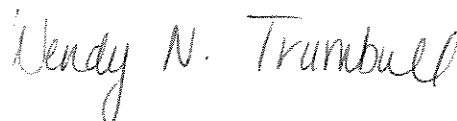
We would like to thank Mayor Pitoniak, Mr. Philo, and the entire Budget and Finance and Treasury Department staff again for their cooperation and assistance they provided during the audit. We would be happy to answer any questions or concerns you have regarding the annual financial report and the above comments and recommendations, at your convenience.

Very truly yours,

**PLANTE & MORAN, PLLC**



Douglas G. Bohrer



Wendy N. Trumbull